2026-2027
TAX PLANNING GUIDE

Includes tax updates for the "One Big Beautiful Bill Act"

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And Much More...

2026-2027 Tax Planning Guide

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After passage of the One Big Beautiful Bill (OBBBA) on July 4, 2025, Americans are beginning to measure its effects against their income and deductions. Naturally, their hope is that the bill will create some relief from their tax obligation. Of course, many taxpayers have been burdened by increased costs for gasoline which also may have a direct impact on the cost of other items routinely used on a daily basis such as food, clothing, and childcare.

These cost increases in many ways are directly related to the US/ Iranian conflict. Ultimately, inflation becomes a precarious saddle which impacts almost every working American. Interest rates continue to be higher than expected and the Federal Reserve has not indicated that a lowering will occur in the near future.

As we indicated last year, the economic impact on housing has prevented many to continue renting vs buying a home. Once interest rates fall, some experts forecast a growth in home sales as well as new construction.

TAX STRATEGIES FOR INDIVIDUALS AND FAMILIES AFTER PASSAGE OF THE BIG BEAUTIFUL BILL OBBBA

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2026 ITEMIZED AND STANDARD DEDUCTIONS

Some key itemized deductions, including how the OBBBA affected them, in a nutshell:

State and Local Tax (SALT) Deduction:

• The OBBBA temporarily increased the SALT deduction cap from $10,000 to $40,000 for tax years 2025-2029, with a phase-out for high-income taxpayers. The cap will adjust for inflation annually before reverting to $10,000 in 2030. Pass-through entity tax (PTET) regimes may still allow for deducting state and local taxes at the entity level.

Charitable Contribution Deduction:

• Starting tax year 2026, individuals who itemize can only deduct charitable contributions exceeding 0.5% of their AGI. Non-itemizers may deduct up to $1,000 (single) or $2,000 (married filing jointly) in cash contributions to public charities. The 60% AGI limit for cash gifts to public charities was made permanent.

Mortgage Interest Deduction:

• The $750,000 cap on the deduction of mortgage interest on acquisition debt was made permanent. Mortgage insurance premiums (PMI) are now treated as deductible mortgage interest.

High-Income Limitation on Itemized Deductions:

• Beginning in tax year 2026, the OBBBA limits the total of itemized deductions for taxpayers in the 37% tax bracket. The reduction is the lesser of two amounts: 2/37ths of total itemized deductions *or* the amount by which taxable income exceeds the 37% bracket threshold.

Educator Expenses:

• Educator expenses are no longer subject to the $250 cap and are now fully deductible as an itemized expense.

Standard Deductions for 2026: $32,200 for married taxpayers filing jointly; $16,100 for single filers; $24,150 for head of household filers; and $16,100 for married taxpayers filing



separately. There is an additional deduction for visually impaired taxpayers or taxpayers over age 65 of $2,050 (if single or head of household) or $1,650 (per spouse if married filing separately). If you still itemize your deductions, maintain detailed records.

DEDUCTIBLE MEDICAL EXPENSES

The OBBBA introduced several changes affecting High-Deductible Health Plans (HDHPs) and Health Savings Accounts (HSAs), thus impacting how deductible medical expenses are handled. Specifically, it made permanent the safe harbor allowing HDHPs to offer first-dollar coverage of telehealth services and expands HSA eligibility for direct primary care arrangements.

Key Changes & Implications for Deductible Medical Expenses

Permanent Safe Harbor for Telehealth:

• The OBBBA made permanent the COVID-era rule that allows HDHPs to cover telehealth and other remote care services before the deductible is met, without jeopardizing HSA eligibility. This means individuals with HDHPs can utilize telehealth services without having to first pay out-of-pocket for the deductible.

Expanded HSA Eligibility for Direct Primary Care:

• Starting in 2026, direct primary care service arrangements will no longer disqualify individuals from contributing to an HSA, if the monthly fees for these arrangements do not exceed $150 for individuals or $300 for families (adjusted for inflation). This allows individuals to use HSA funds to pay for these primary care fees, further reducing their out-of-pocket costs.

Potential for Increased HSA Contributions:

• With the expansion of HSA eligibility for direct primary care, individuals may find it more beneficial to utilize HSAs for these expenses, potentially leading to increased contributions to these accounts.

Impact on Overall Healthcare Costs:

• By encouraging the use of telehealth and direct primary care, the OBBBA may lead to lower overall healthcare costs for individuals with HDHPs, as these options can be more cost-effective than traditional healthcare settings.

Considerations for Employers:

• Employers who offer HDHPs should be aware of these changes and how they affect their employees' ability to utilize telehealth and direct primary care. They may need to adjust their communication and benefits packages to reflect these changes.

LONG-TERM CARE PREMIUM DEDUCTIONS

Long-term-care insurance may be especially valuable in protecting your home and other assets. An insurance policy that covers the cost of care that may be needed later in life can be an important retirement and estate planning component. Tax laws allow you to deduct a portion of qualified long-term care insurance premiums based on your current age.

How much can you deduct for long-term care premiums?

Age Range	2026 Deduction
40 and younger	$ 500
41 to 50	$ 930
51 to 60	$1,860
61 to 70	$4,960
71 and older	$6,200

FLEXIBLE SPENDING ACCOUNTS

For 2026, the One Big Beautiful Bill Act (OBBBA) significantly impacted Flexible Spending Accounts (FSAs), primarily by increasing the Dependent Care FSA limit and making other changes to employer-sponsored benefits.

The key change for Dependent Care FSAs was an increase in the annual limit from $5,000 to $7,500 for single/joint filers, with a separate limit of $3,750 for those who are married filing separately. This change took effect for tax years beginning on January 1, 2026.

Dependent Care FSA Changes – Increased Limit:

• The annual limit for Dependent Care FSAs increased to $7,500, up from $5,000. This applies to single individuals and married couples filing jointly. For those married and filing separately, the limit increases to $3,750.

Take Note - No Indexing:

• Unlike some other benefit limits, the new $7,500 Dependent Care FSA limit will not be indexed for inflation in future years.

Effective Date:

• This change is effective for tax years beginning on January 1, 2026.

2026 INCOME TAX RATES

Married Filing Jointly or Qualifying Widow (Widower)

If Taxable Income Is Between:		Your Tax Is:	Of Amount Over:
$ 0	– $ 24,800	.....10%	$ 0
$ 24,801	– $ 100,800	$ 2,480 + 12%	$ 24,800
$ 100,801	– $ 211,400	$ 11,600 + 22%	$ 100,800
$ 211,401	– $ 403,550	$ 35,932 + 24%	$ 211,400
$ 403,551	– $ 512,450	$ 82,048 + 32%	$ 403,550
$ 512,451	– $ 768,700	$ 116,896 + 35%	$ 512,450
$ 768,701	and above	$ 206,583 + 37%	$ 768,700

Married Filing Separately

If Taxable Income Is Between:		Your Tax Is:	Of Amount Over:
$ 0	– $ 12,400	.....10%	$ 0
$ 12,401	– $ 50,400	$ 1,240 + 12%	$ 12,400
$ 50,401	– $ 105,700	$ 5,800 + 22%	$ 50,400
$ 105,701	– $ 201,775	$ 17,966 + 24%	$ 105,700
$ 201,776	– $ 256,225	$ 41,024 + 32%	$ 201,775
$ 256,226	– $ 384,350	$ 58,448 + 35%	$ 256,225
$ 384,351	and above	$ 103,292 + 37%	$ 384,350

Single

If Taxable Income Is Between:		Your Tax Is:	Of Amount Over:
$ 0	– $ 12,400	.....10%	$ 0
$ 12,401	– $ 50,400	$ 1,240 + 12%	$ 12,400
$ 50,401	– $ 105,700	$ 5,800 + 22%	$ 50,400
$ 105,701	– $ 201,775	$ 17,966 + 24%	$ 105,700
$ 201,766	– $ 256,225	$ 41,024 + 32%	$ 201,765
$ 256,226	– $ 640,600	$ 58,448 + 35%	$ 256,225
$ 640,601	and above	$ 192,979 + 37%	$ 640,600

Head of Household

If Taxable Income Is Between:		Your Tax Is:	Of Amount Over:
$ 0	– $ 17,700	.....10%	$ 0
$ 17,701	– $ 67,450	$ 1,770 + 12%	$ 17,700
$ 67,451	– $ 105,700	$ 7,740 + 22%	$ 67,450
$ 105,701	– $ 201,750	$ 16,155 + 24%	$ 105,700
$ 201,751	– $ 256,200	$ 39,207 + 32%	$ 201,750
$ 256,201	– $ 640,600	$ 56,631 + 35%	$ 256,200
$ 640,601	and above	$ 191,171 + 37%	$ 640,600

Estates and Trusts

If Taxable Income Is Between:		Your Tax Is:	Of Amount Over:
$ 0	– $ 3,150	$ 0 + 10%	$ 0
$ 3,150	– $ 11,450	$ 315 + 24%	$ 3,150
$ 11,450	– $ 15,650	$ 2,307 + 35%	$ 11,450
$ 15,650		$ 3,777 + 37%	$ 15,650

The 2026 tax rate on qualified dividends is 0%, 15% or 20%, (plus a 3.8% Medicare Surtax on the 20% bracket) depending on your taxable income and filing status.

Note: TAX AMOUNTS HAVE BEEN ROUNDED UP

ALTERNATIVE MINIMUM TAX (AMT):

Increased Exemption Amounts Permanently Extended:

• The One Big, Beautiful Bill (OBBB) Act permanently extended the higher AMT exemption amounts introduced by the 2017 Tax Cuts and Jobs Act. For tax year 2026, the exemption amount is $90,100 for individuals and $140,200 for married couples filing jointly.

Phaseout Thresholds:

• The OBBBA reverted the AMT exemption phaseout thresholds to the 2018 levels of $500,000 for single filers and $1 million for married couples filing jointly, with these amounts indexed for inflation in subsequent years.

Phaseout Rate:

• A key change introduced by the OBBBA was an increase in the AMT exemption phaseout rate from 25% to 50% for high-income earners. This means that the exemption phases out more quickly for those with income exceeding the phaseout thresholds.

SALT (State And Local Tax) Deduction Disallowed when calculating the AMT:

• The OBBBA retained the pre 2017 Tax Cuts and Jobs Act rule disallowing the deduction for state and local taxes (SALT).

• In essence, the OBBBA solidifed and adapted the AMT framework, ensuring higher-income taxpayers continue to contribute a minimum tax while adjusting the exemption levels and phaseout mechanisms to reflect current economic realities and the effects of inflation. We will assist taxpayers in higher income brackets, particularly those with significant deductions, carefully assess their potential AMT exposure and consider its impact on their financial and tax planning.

DEDUCTION FOR SENIORS

Tax deduction:

• Effective for 2025 through 2028, individuals who are age 65 and older may claim an additional deduction of $6,000. This new deduction is in addition to the current additional standard deduction for seniors under existing law.

• The $6,000 senior deduction is per eligible individual (i.e., $12,000 total for a married couple where both spouses qualify).

• Deduction phases out for taxpayers with modified adjusted gross income over $75,000 ($150,000 for joint filers).

Qualifying taxpayers:

• To qualify for the additional deduction, a taxpayer must attain age 65 on or before the last day of the taxable year.

Taxpayer eligibility:

• Deduction is available for both itemizing and non-itemizing taxpayers.

• Taxpayers must include the Social Security Number of the qualifying individual(s) on the return, and file jointly if married, to claim the deduction.

NO TAX ON CAR LOAN INTEREST

New deduction:

• Effective for 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. (Lease payments do not qualify.)

• Maximum annual deduction is $10,000.

• Deduction phases out for taxpayers with modified adjusted gross income over $100,000 ($200,000 for joint filers).

2026 Tax Brackets
10%
12%
22%
24%
32%
35%
37%

Qualified interest:
To qualify for the deduction, the interest must be paid on a loan:
• originated after December 31, 2024,
• used to purchase a vehicle, the original use of which starts with the taxpayer (used vehicles do not qualify),
• for a personal use vehicle (not for business or commercial) and secured by a lien on the vehicle.
If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.
Qualified vehicle:
• A qualified vehicle is a car, minivan, van, SUV, pick-up truck, or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and has undergone final assembly in the United States.
Taxpayer eligibility:
• Available for both itemizing and non-itemizing taxpayers.
• The taxpayer must include the Vehicle Identification Number (VIN) of the qualified vehicle on the tax return for any year in which the deduction is claimed.

NO TAX ON TIPS - OBBBA RULES

New deduction:
• Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024, and that are reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137.
• "Qualified tips" are voluntary cash or charged tips received from customers or through tip sharing.
• The maximum annual deduction is $25,000; for self-employed, deduction may not exceed individual's net income (without regard to this deduction) from the trade or business in which the tips were earned.
• Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).
Taxpayer eligibility:
• Deduction is available for both itemizing and non-itemizing taxpayers.
• Self-employed individuals in a Specified Service Trade or Business (SSTB) under section 199A are not eligible. Employees whose employer is in an SSTB also are not eligible.
Taxpayers must:
• include their Social Security Number on the return and file jointly if married, to claim the deduction.
Reporting:
• Employers and other payors must file information returns with the IRS (or SSA) and furnish statements to taxpayers showing certain cash tips received and the occupation of the tip recipient.
Guidance:
• The IRS must publish a list of occupations that received tips on or before December 31, 2024.

NO TAX ON OVERTIME

New deduction:
• Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay –such as the "half" portion of "time-and-a-half" compensation -- that is required by the Fair Labor Standards Act (FLSA) and that is reported on a Form W-2, Form 1099, or other specified statement to the individual.
• Maximum annual deduction is $12,500 ($25,000 for joint filers).
• Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).
Taxpayer eligibility:
• Available for both itemizing and non-itemizing taxpayers.
• The taxpayer must include their Social Security Number on the return and file jointly if married, to claim the deduction.
Reporting:
• Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation.

ADOPTION TAX CREDIT UPDATE

For 2026, the federal adoption tax credit is $17,670 per qualifying child. This tax credit represents a dollar-for-dollar reduction of your total federal tax liability. The amount of the credit will slightly increase each year because it is based on a "cost of living" calculation. The numbers that define the lower and upper limits of income eligibility will fluctuate since they are based on current cost of living.



What Are The Income Restrictions Associated With The Credit?
For 2026, the adoption tax credit is fully available in the amount of $17,670 if your modified adjusted gross income is equal to or less than $265,080. If your modified adjusted gross income is more than $265,080 but less than $305,080, you will receive a reduced tax credit. If your modified adjusted gross income is $305,080 or more for the year, you are not eligible for the tax credit.

CHILD TAX CREDIT (CTC)

The Child Tax Credit was enhanced by the OBBBA.
Increased Credit Amount:
• The maximum credit per qualifying child under 17 rises to $2,200 (up from the previous $2,000).
Refundability:
• The refundable portion of the credit, known as the Additional Child Tax Credit, is $1,700 per qualifying child for 2026.
Inflation Adjustments:
• The credit amount will be indexed for inflation annually. The refundable amount is also indexed for inflation annually.
Social Security Number (SSN) Requirement:
• Both the qualifying child and the taxpayer (or at least one spouse if filing jointly) claiming the credit must have valid SSNs.
Income Limits:
• The credit begins to phase out at higher income thresholds: $200,000 for single taxpayers and $400,000 for those married filing jointly. These thresholds are now permanent.

STANDARD MILEAGE RATES

Use	Jan-Jun 2026	Jul-Dec 2026
Business	0.725 per mile	0.76 per mile
Moving*	0.205 per mile	0.235 per mile
Medical	0.205 per mile	0.235 per mile
Charitable	0.14 per mile	0.14 per mile

* For active-duty US military

TRUMP ACCOUNTS – CREATED BY OBBBA

The OBBBA included the creation of Trump Accounts, under which the US government deposits $1,000 on the birth of a child born between 2025 and 2028. Parents may contribute up to $5,000 per year, with the money growing tax-deferred, to use for higher education, job training, or a down payment on a home.

HEALTH INSURANCE PREMIUMS FOR SELF-EMPLOYED

If you're self-employed and have a net profit for the year, you may be able to deduct the premiums you pay for medical, dental, and qualified long-term care insurance for yourself, your spouse, and your dependents. You can also deduct premiums paid for a child under age 27 at the end of the tax year, even if they aren't your dependent. This deduction is an "above-the-line" adjustment, meaning it reduces your adjusted gross income (AGI) and, therefore, your taxable income, whether you itemize deductions.

2026 DEDUCTIBLE INTEREST EXPENSES – RESIDENTIAL MORTGAGES

Residential mortgage interest expenses are deductible under the OBBBA – Deduction Limit:

• The OBBBA retained the $750,000 principal limitation for deductible mortgage interest on acquisition debt incurred after December 15, 2017 and made this limit permanent. This means you can deduct interest on mortgages up to $750,000 for your main home and one other residence.

Grandfathered Mortgages:

• If your mortgage was taken out before December 16, 2017, the previous deduction limit of $1 million still applies.

Home Equity Debt:

• The OBBBA permanently eliminated the deduction for interest on home equity debt, unless the proceeds are used to buy, build, or substantially improve your main home or a second home. This means interest on home equity loans used for personal expenses (like credit card debt or vacations) is no longer deductible. However, the interest might still be deductible if the loan is used to "substantially improve" the home, like installing an in-ground pool or a deck.

Mortgage Insurance Premiums (PMI):

• The deduction for mortgage insurance premiums (PMI) associated with acquisition debt was permanently restored by the OBBBA. These premiums can now be treated as qualified mortgage interest, subject to the $750,000 mortgage debt threshold.

Itemizing Deductions:

• You can only deduct mortgage interest if you choose to itemize your deductions on Schedule A of your tax return. If the standard deduction is higher than your total itemized deductions, you might not benefit from itemizing.

Qualified Residence:

• To qualify for the deduction, your home must be a house, condo, co-op, mobile home, houseboat, or similar dwelling with sleeping, cooking, and toilet facilities.

Secured Mortgage:

• The mortgage must be a secured debt, meaning there is collateral (usually the property itself) that covers the debt.

STUDENT LOAN INTEREST

Up to $2,500 of interest on student loans incurred during 2026 may be deducted. Since this is an "above-the-line" deduction, even non-itemizing taxpayers can benefit. The loans must be used for qualified higher education expenses, such as tuition, fees, room, board, and books. If you are in a higher tax bracket, you may not be eligible for this deduction because of the phaseout rules.

CHARITABLE CONTRIBUTIONS UPDATE

While the OBBBA contained various provisions that impact high-net-worth individuals, this section focuses on OBBBA provisions relating to charitable contribution deductions.

The OBBBA made four key changes to an individual's ability to deduct charitable contributions on their income tax return.

• Increased Tax Deduction for Non-Itemizers

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (effective in 2020 and 2021), individuals who did not itemize could deduct $300 ($600 for joint returns) of cash contributions to certain charitable organizations. That provision was allowed to expire. OBBBA brought back this deduction and increased the amount to $1,000 for individuals and $2,000 for married persons filing jointly. The normal substantiation rules apply, and only contributions to public charities that are neither donor-advised funds nor supporting organizations qualify. This provision is effective starting January 1, 2026.



• Creation of a Floor for Charitable Deductions for Itemizers

Prior to OBBBA, there was no separate threshold for deductions for contributions to charities. OBBBA provides that a person itemizing their deductions can only deduct charitable contributions to the extent that the amount contributed exceeds 0.5% of the individual's adjusted gross income (AGI). For example, if a person's AGI for 2026 is $1 million, the first $5,000 of charitable donations will not be deductible. This limitation is effective starting January 1, 2026.

• Maximum Benefit From Charitable Deduction Limited to 35% Tax Rate

Prior to OBBBA, charitable deductions served to reduce a taxpayer's income such that the benefit of the deduction was calculated at the highest marginal tax bracket for the taxpayer. OBBBA provides that the maximum benefit for a charitable contribution deduction shall be calculated using a 35% marginal income tax rate if the taxpayer's actual highest tax rate is in the 37% or the 35% marginal income tax bracket. This limitation is effective starting January 1, 2026.

• Larger Donations to Public Charities Made Deductible

Prior to OBBBA, a limitation that capped cash donations to public charities at 60% of the taxpayer's AGI was set to expire on December 31, 2025, after which the limitation would have reverted to 50% of AGI. OBBBA made the 60% of AGI limitation permanent.

Charitable Contribution Planning Tip:

• Both itemizers and non-itemizers will benefit from paying attention to the timing of their charitable contributions. Because of the AGI limitation, clients may want to consider "bunching" their charitable donations. Bunching refers to grouping multiple donations into a single tax year, in order to exceed the AGI limitation and maximize the tax write-offs.

• The bunching can be accomplished by making a large one-time contribution to a donor-advised fund and itemizing for that year. The result will be even better if the year of contribution is a year in which the client's income is relatively low to depress the 0.5% floor; however, care will have to be taken to stay under the AGI limitations applicable to the client's income for the year.

RULES FOR CASUALTY LOSSES

Here is a summary of casualty loss deduction rules, including provisions that were introduced by the OBBBA:

Casualty Loss Deduction Expanded and Made Permanent:

• Under The One Big Beautiful Bill Act, the deduction for certain personal casualty losses has been made permanent, and beginning in 2026, the scope of eligible losses is expanded. This means that a personal casualty loss deduction is no longer limited solely to losses attributable to federally declared disasters; it may also include losses resulting from state-declared disasters.

Limit and AGI Threshold:

• Each loss must exceed $100, and your total losses must exceed 10% of your AGI (adjusted gross income).

General Casualty Losses:

• If you have losses not related to a declared disaster, you may be able to deduct them, but only up to the amount of any personal casualty gains (i.e. insurance payouts that are more than your property's tax basis).

Theft Losses:

• Theft losses incurred in a transaction entered into for profit may still be deductible.

Itemized Deduction:

• To claim this tax break, you must itemize your deductions, which means your total itemized deductions must exceed the standard deduction.

Note: It is important to remember that the above details relate only to federal income taxes.

YOUR NON-CASH COMPENSATION/ WHAT'S IN IT FOR YOU

Tax implications for non-cash compensation changed under the One Big Beautiful Bill Act (OBBBA).

Under the OBBBA, effective in 2025 unless otherwise noted, the tax exclusion for employer-reimbursed bicycle commuting expenses and moving expense deductions were permanently eliminated.

For tax-exempt organizations, the 21% excise tax on excess executive compensation now applies more broadly. This change is effective for tax years beginning in 2026.

The OBBBA also addresses employer-provided childcare and dependent care assistance. The maximum annual credit for employer-provided childcare is increased, as is the percentage of qualifying expenses covered. Additionally, beginning in 2026, the maximum annual exclusion for dependent care Flexible Spending Accounts (FSAs) is increased.

Regarding education benefits, the $5,250 exclusion for employer-provided student loan payments is permanently established and will be adjusted annually for inflation for tax years beginning after 2026. The definition of qualified higher education expense under Code section 529 is also expanded to include certain K-12 and post-secondary credentialing expenses, applying to distributions made after July 4, 2025.

Generally, non-cash compensation is taxable based on its fair market value unless a specific exclusion applies. Employers are typically responsible for reporting the value of these benefits and withholding taxes.

PERSONAL INVESTMENT EXPENSES

Personal investment expenses are generally not deductible.

Permanent Elimination of Miscellaneous Itemized Deductions:

• The OBBBA permanently eliminated most miscellaneous itemized deductions, including investment management fees and other investment expenses that were previously deductible subject to a 2% AGI limitation.

The Prior Law's Suspension Is Permanent:

• The Tax Cuts and Jobs Act (TCJA) of 2017 had suspended these deductions through 2025, and the OBBBA made this suspension permanent.

• Most individual investors are no longer able to deduct expenses related to managing their personal investments, such as advisory fees, brokerage charges, and research subscriptions.

An Exception:

• Investment interest expenses (interest paid on money borrowed to buy taxable investments) may still be deductible if you itemize deductions.

TAX TIP #1

Personal investment expenses are generally not deductible, however you may be able to deduct investment interest expenses if you itemize.

PROFESSIONAL FEES

Under the Tax Cuts and Jobs Act of 2017, many itemized deductions were eliminated or modified. The deduction for tax preparation fees (filed as a miscellaneous itemized deduction subject to the 2% floor) was eliminated by the OBBBA.

Under prior law, generally, you could not deduct personal legal expenses, such as the expense of acquiring, perfecting, or defending your title to property. However, these costs could qualify as capital expenditures, which were added to the basis of the property. Expenses related to tax-free income are not deductible.

Divorce-Related Fees:

• Under current law, taxpayers cannot deduct legal fees for divorce litigation, counseling, or property settlements. The IRS considers divorce-related legal fees to be a non-deductible personal expense.

EDUCATION STRATEGIES

There are several strategies for those saving for a child's education, such as 529 plans, Coverdell Education Savings Accounts (ESAs), and education tax credits. Navigating the different options and the temporary nature of some opportunities, however, can be challenging. Take a look at the rules governing tax breaks for education, including changes made by the OBBA.

529 COLLEGE SAVINGS PLANS

There have been several key changes in recent years:

Expanded K-12 Expenses:
- 529 funds can now cover a wider range of K-12 costs beyond tuition, including curriculum materials, books, online resources, tutoring, educational classes, testing fees (standardized, AP, college admissions), dual enrollment, and educational therapies for students with disabilities.

Increased K-12 Withdrawal Limit:
- Starting in tax years Janurary 1, 2026, the annual limit for K-12 expenses using 529 funds is $20,000, doubled from the previous $10,000.

Inclusion of Postsecondary Credentialing Programs:
- 529 funds can be used for expenses related to recognized postsecondary credentialing programs, such as tuition, fees, books, and supplies.

Immediate Effectiveness for Most Expansions:
- Most of these expansions for eligible expenses became effective immediately as of July 5, 2025.

Permanent 529-to-ABLE Rollovers:
- The provision allowing tax-free rollovers from 529 plans to ABLE accounts is permanent.

State-Level Differences:
- While these changes are federal, state regulations regarding 529 plans and the adoption of these provisions, especially for K-12 expenses, may vary.

In summary, the OBBBA made 529 plans more flexible for saving for various educational and professional development costs.



THE BENEFITS OF 529 PLANS

To qualify as a 529 plan under federal rules, plan balances cannot exceed the expected cost of a beneficiary's **Qualified Higher Education Expenses (QHEE)**. The frequently accepted guideline is that this limit constitutes five years of tuition, room, and board at the most expensive college in the United States.

This guideline makes investment contribution limits quite large, although every state can individually interpret what five years of qualified education costs means. If you are a potential contributor to a 529 Plan, you should check your states' 529 limits to determine specific investment maximums.

Although originally structured to fund post-secondary education, 529 plans can now also be used to fund private K-12 education and apprenticeship programs registered and certified with the U.S. Secretary of Labor. Here are some highlights:
- A 529 plan allows you to save and grow tax-free money for someone's education, including your own.
- Beneficiaries must spend the money on qualified education expenses for the withdrawal to be considered tax-free.
- There are two types of 529 plans: prepaid tuition and savings plans.

OTHER EDUCATION RELATED TAX BENEFITS

Those who have student loans forgiven may not have to pay tax on the waived debt if they work in public service jobs or teach in schools in low-income areas for 120 months, and make regular loan payments during that time. This rule applies to loans first made by the government or by private lenders that are later consolidated into Federal loans. Information on Federal loan forgiveness programs can be found at studentaid.ed.gov.

Tax Benefit	Maximum Benefit	Qualified Expenses	2026 Income Phaseouts	Notes
Student Loan Interest Deduction	$2,500 above-the-line deduction	Student loan interest	Single and Head of Household $85,000–$100,000 Married, Filing Jointly $170,000–$200,000	Person obligated to make loan payment must be/have been at least half-time student in degree program
Employer Tuition Assistance	$5,250 exclusion from income per student	Tuition, fees, books, supplies, equipment	None	Employers must have a written "Section 127 plan"
Scholarships	Excluded from income	Tuition, fees, books, supplies, equipment	None	Student must be degree candidate

THE BENEFITS OF 529 PLANS – CONTINUED

• Maximum plan contribution limits vary by state, but such limits generally do not apply across states.

Here's how 529 plan contributions work:

• Annual Gift Tax Exclusion: You can contribute up to $19,000 (single) or $38,000 (married filing jointly) per beneficiary per year without reporting it to the IRS as a gift.

Super funding (5-Year Election):

• You can contribute a lump sum equal to five years of the annual exclusion amount ($95,000 for single filers, $190,000 for married couples filing jointly) to a beneficiary's 529 account in a single year without it counting against your lifetime gift tax exemption. This is treated as though the contributions were spread out over five years.

State-Specific Aggregate Limits:

• Each state that sponsors a 529 plan sets an aggregate (lifetime) contribution limit per beneficiary. These limits vary by state and can be quite high, ranging from around $235,000 to over $500,000. If you reach this limit, further contributions for that beneficiary will not be accepted.



Important considerations:

State Tax Benefits:

• Many states also offer tax deductions or credits for contributions to their own 529 plans. It's essential to check your state's specific rules as some may require you to contribute to your home state's plan to qualify for the deduction or credit, and there may be limits on the amount you can deduct.

Estate Planning:

• Contributions to 529 plans are considered completed gifts and are removed from taxable estate, potentially reducing estate taxes.

Remember, your taxable income is not reduced by contributing to a 529 plan. However, more than 30 states give out tax deductions or credits for contributions made to one.

In addition, you may contribute to both a 529 plan and a Coverdell Education Savings Account (ESA) on behalf of the same beneficiary in the same year. As 529s have become more popular, many plan options have emerged. Each type of plan has its own rules and investment options. There are certain pros and cons associated with 529s. For example, 529 plans may not be the best choice for low- and middle-income taxpayers who qualify for financial aid because 529 assets are considered when determining need for financial aid; you will be taxed and penalized on the earnings portion of any withdrawals if funds are not used for qualified education expenses. Savings plans invested in stocks may lose money, so it may be wise to switch funds into less volatile investments as the beneficiary gets closer to college-age. You may not benefit from additional state tax breaks unless a plan is set up in your state of residence; and some states have residency requirements for establishing an account.

COVERDELL EDUCATION SAVINGS ACCOUNTS

The contribution limit for Coverdell Education Savings Accounts in 2026 is $2,000 per year, per beneficiary. The limit, regardless of the number of individuals or organizations contributing to the ESA for the same child, and regardless of the number of accounts established for that child. Contributions can be made until the due date of the contributor's tax return, without extensions. However, the ability to contribute the full amount is subject to Modified Adjusted Gross Income limits, which are not adjusted for inflation.

• For single filers, the maximum contribution is gradually reduced for MAGI between $95,000 and $110,000. Single filers with a MAGI of more than $110,000 cannot contribute.

• Married filing jointly, the maximum contribution is gradually reduced for MAGI between $190,000 and $220,000. Joint filers with a combined MAGI of more than $220,000 cannot contribute.

It is important to note that contributions to a Coverdell ESA are not tax-deductible, and must stop when the beneficiary turns 18, unless they are a special needs beneficiary. Funds must be used by the time the beneficiary turns 30, unless they are a special needs beneficiary. Any unused amounts remaining in the account after the beneficiary turns 30 (except for special needs beneficiaries) will be subject to income tax and a 10% penalty. Unused funds can, however, be rolled over to another family member's Coverdell ESA or a 529 plan. Refer to chart on page 13.

EDUCATION BONDS

Education Bonds offer tax-free interest on Series EE bonds issued after December 31, 1989, and all Series I bonds. Tuition and fees are qualified expenses. You can rollover an education bond into a 529 Plan or Coverdell ESA. Income phaseouts for 2026 are $101,800-$116,800 for single and head of household filers and $152,650–$182,650 for married filing jointly. Some important notes: income limits apply when bonds are cashed; bonds must be in the parent's name; the child must be the beneficiary, not co-owner; and the purchaser must be age 24 or older.

EDUCATION TAX CREDITS

If you are currently paying higher education expenses, two Federal tax credits may help lessen your tax bill: the American Opportunity Tax Credit and the Lifetime Learning Credit.

The American Opportunity Tax Credit is worth $2,500 in 2026. It is now available for all four years of college, and it can be used to cover the cost of course materials. Income phaseout levels for the credit begin at $160,000-$180,000 of modified AGI for joint filers and $80,000-$90,000 of modified AGI for single filers. In addition, 40% or $1,000 of the credit is refundable, which could enable lower-income taxpayers to get money back from the IRS.

The Lifetime Learning Credit, which applies to undergraduate study, as well as graduate and professional education pursuits, could be worth up to $2,000. The Consolidated Appropriations Act (CAA) of 2021 changed the Lifetime Learning Credit by aligning its income phase out rule with the American Opportunity.

If you cannot claim either credit because your income is too high, your child can take the full credit if he or she has sufficient taxable income. However, you will not be able to claim a dependency exemption for the child. Your savings, therefore, will be the amount of the credit less the tax benefit of the lost dependency exemption. But, be aware that, based on your income, the exemption may be reduced.

OTHER EDUCATION BENEFITS

- See the chart on page 9.
- You can withdraw from your IRA to pay qualified higher education expenses without being penalized. The amount withdrawn will be subject to taxation, however.

FINANCIAL AID

Most colleges use Federal guidelines to determine the need-based aid for which your child may be eligible. Several factors determine the amount of the aid: the "cost of attendance" for the college in question; the money provided from outside sources (such as scholarships or tuition paid directly by a relative); and the "EXPECTED FAMILY CONTRIBUTION" (EFC). The information you provide each year on the Free Application for Federal Student Aid (FAFSA) is used to calculate your EFC. The college then uses that figure to calculate the amount of Federal student aid you are eligible to receive through loans, grants, and/or work-study programs. (Note that criteria for colleges that use their own formulas may vary from what is discussed here.)

TAX TIP #2

If you cannot claim the American Opportunity or Lifetime Learning Tax Credit because your income is too high, your child may be able to claim the tax credit if they have sufficient taxable income.

WHAT IS THE STUDENT AID INDEX (SAI)?

Your Student Aid Index (SAI) is a formula-based index number ranging from –1500 to 999999. Where your SAI falls within the SAI range helps your school determine how much financial support you may need.

A negative SAI indicates you have a higher financial need. For example, if you have an SAI of –1500, you'll qualify for a maximum Pell Grant award assuming you have not exhausted your lifetime amounts and meet all student eligibility requirements.

Your SAI is not:

- a dollar amount of aid you'll receive,
- what your family is expected to provide, or
- your final financial aid offer.

Your SAI is an index number used by financial aid professionals when creating an aid offer. Your SAI is calculated using information that you (and other contributors, if required) provide on the Free Application for Federal Student Aid (FAFSA®) form.

During your aid process, you will see the following:

- an estimated SAI on the confirmation page of your FAFSA form
- an official SAI within your FAFSA Submission Summary (after your FAFSA form is processed)

FINANCIAL AID FOR COLLEGE STUDENTS

Student Loans:

- Subsidized loans eliminated: The government will **no longer** offer subsidized loans starting July 1, 2026. These loans previously did not accrue interest while the student was in school.
- Grad PLUS and Parent PLUS loans eliminated: These programs that allowed borrowing up to the full cost of attendance are also eliminated starting July 1, 2026.
- New loan limits imposed: New aggregate borrowing limits for students have been set: $50,000 for undergraduates, $100,000 for graduate students, and $150,000 for professional degree programs like law or medicine.
- Parent borrowing limits capped: Parents will be limited to borrowing a maximum of $50,000 total per student, and only after the student has taken out the full unsubsidized loan amount.
- Lifetime borrowing cap: A new aggregate lifetime loan limit of $257,500 has been established for all borrowers, with Parent PLUS loans excluded from this calculation.
- Three-Year exception for existing borrowers: Students enrolled before June 30, 2026, may follow the old loan rules for up to three additional years or for the remainder of their program, whichever is less.

Pell Grant Changes:

- Eligibility expanded to short-term programs: Pell Grants can now be used for short-term workforce training programs and apprenticeships (8-15 weeks in length, 150-600 clock hours), provided the programs are offered by accredited institutions and meet certain eligibility criteria. Students with a bachelor's degree can also utilize these funds for short-term programs.
- Ineligibility for high-income/high-asset students: Students with high income or a Student Aid Index (SAI) exceeding twice the maximum Pell award may no longer qualify for Pell Grants.



ESTIMATED TAX PAYMENTS

Income tax is considered a pay-as-you-go tax, which means that tax must be paid as you earn or receive income during the year. Therefore, if you are self-employed or have additional sources of income outside of your regular job, you may be required to pay your Federal taxes four times annually.

To avoid penalties, make estimated payments in four installments equal to 90% of your 2026 tax liability or 100% of what you paid in 2025. If the AGI on your prior year's return was more than $150,000 ($75,000 if married filing separately), the percentage requirement increases to 110% of 2025 tax or 90% of the 2026 tax, whichever is lower. The minimum threshold for paying estimated tax remains at $1,000 for 2026.



Medicare Taxes for the Self-Employed
Even if you are self-employed, the 2.9% Medicare tax applies. Typically, people who are self-employed pay a self-employment tax of 15.3% total – which includes the 2.9% Medicare tax – on the first $200,000 of net income in 2026 for single filers, and $250,000 for married couples, and $125,000 for married couples filing separately.

The self-employed tax consists of two parts:
- 12.4% for Social Security
- 2.9% for Medicare

You can deduct the employer-equivalent portion of your self-employment tax in figuring your adjusted gross income.

LOOKING FOR A JOB/ JOB HUNTING EXPENSES

In December 2017, with the passing of the Tax Cuts and Jobs Act, many deductions including the option to deduct job search expenses were suspended or eliminated from 2018 to 2025. Also, as part of the 2017 tax law, taxpayers will not be able to deduct moving expenses starting in 2018 through 2025. An exception is that taxpayers who are members of the military on active duty who move as part of an order can deduct certain costs of getting themselves, their family, and goods to the new area, and this includes parking fees, tolls, and 21¢ per mile.

TAXES FOR DOMESTIC HELP

If you have a household employee, you may need to withhold and pay social security and Medicare taxes, pay FUTA tax, or both. You don't need to withhold federal income tax from your household employee's wages, but you can if your employee requests it.

If you pay a household employee (such as a housekeeper or caregiver) cash wages of $3,000 or more in 2026, then you are required to withhold and pay Social Security and Medicare taxes. The total taxes are 15.3% of cash wages -- your share is 7.65% and your employee's share is 7.65% (you can choose to pay it yourself and not withhold it).

If you pay total cash wages of $1,000 or more in any calendar quarter of 2026 to household employees, you must pay FUTA tax. This tax is 6% of cash wages. Wages over $7,000 a year per employee are not taxed.

DEPENDENT EXEMPTIONS

The "One Big Beautiful Bill Act" (OBBBA) significantly impacted dependent exemptions and related tax provisions, primarily by making permanent changes introduced by the Tax Cuts and Jobs Act (TCJA) and introducing new provisions aimed at families. **Here are some key changes to dependent exemptions and related provisions.**

Permanent Elimination of Personal Exemptions:
- The OBBBA permanently eliminated personal exemptions for individuals, spouses, and dependents that were temporarily suspended under the TCJA. This means taxpayers cannot claim a deduction for themselves or their dependents based on personal exemptions for tax years after 2025. However, a new temporary deduction of $6,000 for seniors aged 65 and older is available for tax years between 2025 and 2028.

Permanent Credit for Other Dependents (COD):
- The $500 Credit for Other Dependents (COD) was made permanent, providing a tax credit for qualifying dependents who don't meet the definition of a qualifying child, such as older children or dependent parents.

Dependent Care Flexible Spending Account (FSA) Limits:
- Effective for tax years starting January 1, 2026, the maximum annual exclusion for Dependent Care FSAs has increased from $5,000 to $7,500 ($3,750 for married individuals filing separately).

Employer-provided childcare credit:
- The OBBBA raised the maximum annual credit for employer-provided childcare to $500,000 (up to $600,000 for certain small businesses) and increased the percentage of qualifying expenses covered to 40% (up to 50% for certain small businesses).

In essence, the OBBBA shifted away from dependent exemptions as a direct deduction and replaced them with a combination of enhanced credits and other tax benefits aimed at supporting families with dependent care and related expenses.

TAX TIP #3

Personal exemptions for individuals, spouses, and dependents were permanently eliminated by the OBBBA.

KIDDIE TAX UPDATE

Congress has provided many favorable tax breaks to individuals in recent years. The "kiddie tax" applies to a child's unearned income if it is over $2,700 in 2026. Children under age 18 (age 19 if the child does not provide more than one half his/her own support or age 24 for full-time students) are taxed at rates that apply to trusts and estates, not the parents' top rates as it has in years past.

The Kiddie Tax rules require that unearned income over $2,700 under your child's name is subject to the parent's marginal tax rate. The first $1,350 on unearned income isn't taxed at all. The next $1,350-$2,700 is taxed at the child's income tax rate, which will be typically be lower than the parent's. If a child's income is over $2,700 it will be taxed at the higher of the parents' top marginal rate or the child's top rate, whichever is higher.

TAX TIP #4

If your child has earned income (e.g., from a summer job or babysitting) consider opening a Roth IRA. This will give your child a huge financial head start, and can grow modest early savings into a substantial nest egg.

After the initial $2,700 in unearned income, the rest of it is reported and taxed at the parents marginal tax rate. Your child would be responsible for paying the increased tax rate.

What Tax Rate Will My Child Pay?
The IRS sets specific limits on the type of income and the tax rates. Earned income will be taxed at the child's rate above their applicable standard deduction, which is equal to their earned income plus $450 (or $1,350, whichever is greater), up to a maximum of $15,000 in 2026. But investment income is a more complicated formula. Unearned income from interest, dividends, and capital gains are taxed in tiers defined by the IRS.

- For a child with no earned income, the amount of unearned income up to $1,350 is not taxed in 2026.
- The next $1,350 is taxed at the child's rate.
- Any amount above $2,700 is taxed at the parents' rate.

These rules cover children under the age of 18, and also those under the age of 24 who are full-time students.



IRAS FOR KIDS

If your child has earned income from outside the household, such as from a summer job or babysitting, consider opening a Custodial Roth IRA (Individual Retirement Account). For 2026, you can contribute up to $7,500 or 100% of their earned income, whichever is less.

Another option for your child is a Trump Account, which are tax-advantaged IRAs for children under 18. This program was launched in July 2026 and does not require the child to have earned income. The U.S. Treasury deposits a one-time $1,000 contribution for any U.S. citizen child with a Social Security Number who is born between 2025-2028. Permitted contributors (including parents) may deposit up to $5,000 a year per child.

2026 INCOME TAX PHASEOUT RANGES

Provision	Single	Married Filing Jointly
Child Tax Credit[1]	Starts at $200,000 AGI[2]	Starts at $400,000 AGI[2]
Adoption Credit	$265,080 – $305,080 AGI	Same as single
Interest on Education Loans	$85,000 – $100,000 AGI	$175,000 – $205,000 AGI
Education Credits a) American Opportunity Tax Credit b) Lifetime Learning Credit	 Starts at $80,000-$90,000 AGI Starts at $80,000-$90,000 AG	 Starts at $160,000-$180,000 AGI Starts at $160,000-$180,000 AGI
Coverdell Education Savings Accounts	$95,000 – $110,000 AGI	$190,000 – $220,000 AGI
Education Savings Bonds	$101,800 – $116,800 AGI	$152,650 – $182,650 AGI
Individual Retirement Accounts (IRAs) a) Active participant in another plan b) Not an active plan participant	 $81,000 – $91,000 AGI No limitations apply	 $129,000 – $149,000 AGI[3] $236,000 – $246,000 AGI[4]
Roth IRAs	$153,000 – $168,000 AGI	$242,000 – $252,000 AGI

[1] The credit is reduced by $50 for each $1,000, or fraction thereof, of AGI above the threshold.
[2] AGI is adjusted gross income. Different modifications may apply depending on specific provisions.
[3] Applies when both spouses are active plan participants or only the participant spouse contributes.
[4] Applies if at least one spouse is not an active participant.



Employers are also allowed to contribute up to $2,500 to the child's Trump Account each year. Contributions are made with after-tax money and growth is tax-deferred. The earnings are taxed as ordinary income upon distribution.

NOTE: Keep in mind that investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.

TAXES & DIVORCE

Under current tax law, many taxpayers lose the benefit of deducting legal fees for divorce as itemized deductions due to new limitations. Taxpayers can no longer deduct legal fees for personal or family matters because miscellaneous itemized eductions have been eliminated.

Divorce and related tax matters can be complicated. Generally, spouses cannot file as single until the divorce is legally finalized. Filing a joint return often results in the most favorable tax rates, but both spouses remain jointly responsible for any taxes owed. To provide some protection, the tax code includes "innocent spouse" provisions, which may relieve a spouse from liability for certain taxes or unreported income they were unaware of.

To avoid being held responsible for the other spouse's tax obligations, divorcing couples may choose to file separately under the married filing separately status. However, tax rates tend to be higher, potential tax breaks may be lost, and if one spouse itemizes, both must do so.

For couples with children who lived apart during the last six months of the tax year, another filing option may be available. A spouse who paid more than half the cost of maintaining a household that served as the children's primary home for more than half the year may quali-fy to file as head of household. This status can provide lower tax rates, access to additional tax credits, and a higher standard deduction than either married filing separately or single filing status.

QUALIFIED DOMESTIC RELATIONS ORDERS

During divorce, retirement and pension funds, such as those in 401(k) plans, may need to be divided. Early withdrawals from these accounts may incur penalties unless a Qualified Domestic Relations Order (QDRO) is obtained.* The QDRO directs a retirement fund's administrator to pay a specific amount to a former spouse or child. The former spouse may defer tax on the payments by rolling them into an IRA within 60 days of receipt. Payments made to a child are taxed to the plan participant.

** The exception to the early withdrawal penalty only applies to 401(k)s and other qualified plans. An early withdrawal from an IRA would still be subject to penalty.*

PROPERTY TRANSFERS

The basis of property transferred in a divorce proceeding carries over from one spouse to the other. Therefore, it is important to consider not only the value of property received, but also its tax basis. The recipient of appreciated property may owe tax on its inherent appreciation when it is later sold. This future liability can be recognized, quantified, and properly reflected in the divorce settlement.

TAX TIP #5

For 2026, the annual federal Gift Tax exclusion is $19,000 per recipient. You can gift this amount to as many recipients as you like without triggering the gift tax or having to file a gift tax return.

CHILD SUPPORT AND ALIMONY

A summary of how child support and alimony are taxed, including rules that were established by the One Big Beautiful Bill Act:

Child Support Not Taxable Income:

- Child support payments received by the custodial parent are not considered taxable income by the IRS and do not need to be reported on their federal tax return.

Not Tax-Deductible:

- Conversely, the parent paying child support cannot deduct these payments from their taxable income.

No Impact on Tax Benefits:

- Child support payments do not affect eligibility for tax benefits like the Child Tax Credit (CTC) or Earned Income Tax Credit (EITC).

Alimony (Spousal Support):

- The tax treatment of alimony depends on when the divorce or separation agreement was finalized. This is due to changes made by the Tax Cuts and Jobs Act (TCJA) of 2017.
- For agreements finalized on or before December 31, 2018, the payer can deduct alimony payments, and the recipient must report them as taxable income. This applies to agreements finalized before January 1, 2019, unless they were modified after that date.
- For agreements finalized after December 31, 2018, alimony payments are not deductible for the payer and are not considered taxable income for the recipient.
- The OBBBA did not alter the tax treatment of alimony established by the TCJA; these changes are permanent.

In Summary:

- Child support is tax-neutral – it is not taxable income for the recipient and not deductible for the payer.
- Alimony's tax treatment varies based on the date of the divorce agreement, moving towards tax-neutrality for agreements after 2018 due to the TCJA, which the OBBBA maintained.

STRATEGIES FOR HOME OFFICES & HOMEOWNERS

How to calculate the home office deduction in 2026.

Simplified Method:

- You can deduct $5 per square foot of your home office space.
- The maximum deduction is limited to 300 square feet, meaning the highest possible deduction is $1,500 ($5 x 300).
- This method is generally easier as it eliminates the need to calculate actual expenses.
- You cannot deduct depreciation or Section 179 expenses for the space used as a home office when using the simplified method.
- However, you can still claim deductions for qualified business expenses not related to the home itself (such as office supplies, business travel, etc.).

Regular Method:

- This method allows you to deduct a proportional percentage of your actual home expenses, including rent or mortgage interest, utilities, property taxes, home insurance, repairs and maintenance, and depreciation.
- You calculate the percentage of your home used for business by dividing the square footage of your office by the total square footage of your home.
- This percentage is then applied to the deductible expenses.
- Example: If your home is 2,500 square feet and your office is 250 square feet, you can deduct 10% of your qualifying home expenses.
- You need to use Form 8829 to calculate and report the deduction with this method.
- This method can potentially lead to a higher deduction if you have a larger home office or significant home-related expenses, but it requires more detailed recordkeeping and calculations.

Important Considerations:

- You must use the space exclusively and regularly for business activities to qualify for the deduction.
- Employees who work remotely for an employer are not eligible to claim the home office deduction unless they are also self-employed.
- The deduction cannot exceed the gross income generated by the business using the home office.

HOME-BUYING FEES

When buying and selling real estate, keep in mind the rules for deducting certain expenses. Homebuyers face two major fees: closing costs and mortgage points. Closing costs are generally not deductible, but they add to the cost basis of the home, reducing the gain when the house is sold.

Mortgage points may be fully deducted in the year they are paid, if the following conditions are met:

- The loan is secured by your home.
- The loan is for the purchase or improvement of the primary home.
- The points are for the use of money (not a service charge).

If the purpose of the loan is not to acquire or improve your principal residence but the other two conditions are met, you can still deduct the points in monthly increments over the life of the loan. If the mortgage ends early because of prepayment or refinancing, you may deduct the remaining, or unamortized, points at that time.



When refinancing, points paid on a loan to improve the principal residence may be deducted immediately. If you are refinancing to improve your interest rate, the points are deductible over the life of the loan. Points paid by seller are also deductible by the buyer.

HOME EQUITY LOANS

Interest paid on home equity loans and HELOCs is tax-deductible only when the borrowed funds are used to buy, build, or substantially improve your primary or secondary residence. The OBBBA made this permanent. Interest is not deductible if the funds are used for personal expenses, such as vacations or debt consolidation.

SECOND-HOME DEDUCTIONS

Your cabin by the lake may provide you with more than rest and relaxation—it could also be a valuable source of deductions. For tax purposes, a qualified second home must have a place to sleep, a toilet, and cooking facilities, whether it be a condominium, recreational vehicle, boat, etc.

You may be able to deduct interest on a loan for a second home, provided your primary and secondary mortgages do not total more than $750,000 (or $375,000 if married filing separately). If you rent out the second home, you must use it personally for more than 14 days or for more than 10% of the rental days, whichever is greater, for it to qualify as a personal residence. In addition to mortgage interest, you may be able to deduct property taxes and prorated monthly portions of your points paid over the loan life.

If you rent the home for more than 14 days per year and it qualifies as a personal residence, you can also deduct the appropriate portion of upkeep, insurance, utilities, and similar costs to offset rental income. The property may be depreciated, which can help reduce your rental income without expending cash. As long as you use the place yourself for less than 14 days or 10% of the rental days, it is considered rental property, and you can claim a rental loss (subject to certain limitations).

SELLING YOUR HOME

Losses from home sales cannot be deducted. Business or rental property is subject to different rules. You can take extra deductions by staying in the home and converting part of it for business or rental use. When you sell your home, you can claim a business loss if the property declines in value below its current tax basis, but only on the portion of property that is actually used for business or rental purposes.

Married couples can exclude up to $500,000 of gain when they sell their home ($250,000 for single filers). The home must have

TAX TIP #6

Take maximum advantage of your employer's Section 125 flexible spending account, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA).

been the principal residence for at least two of the last five years. Homeowners can receive a portion of the exclusion based on how long they lived in the home, as long as the sale is due to a change in place of employment or health, or unforeseen circumstances. The exclusion can be used once every two years and at any age.

If you exceed these limits or fail to satisfy the two-out-of-five-year rule, any remaining profit may be subject to capital gains tax. The applicable tax rate depends on your taxable income and generally ranges from 0% to 20%.



MORE TAX SAVING STRATEGIES

For Families And Individuals

- ☑ Reduce your taxable income by strategically shifting income to family members, while keeping the kiddie tax rules in mind.
- ☑ Compare the potential tax benefits to determine whether you or your child should claim education-related deductions or credits.
- ☑ Review upcoming life changes—such as marriage, divorce, the birth of a child, retirement, or other major events—and consider how they may impact your year-end tax planning.
- ☑ Maximize the benefits available through your employer's Section 125 flexible spending account, 401(k) plan, health savings account (HSA), and health reimbursement arrangement (HRA)
- ☑ For tax purposes, purchases are generally considered paid when charged to a credit card. If you need additional deductions this year but are short on cash, consider charging deductible expenses (e.g., charitable contributions, medical costs, business expenses). Be sure to pay off balances promptly to avoid unnecessary debt.

MANAGING RECEIPT OF INCOME

When considering how to best manage your taxes, keep in mind that deductions are only part of the story. Income must also be considered. For example, if you expect to be in a higher income tax bracket next year, it may be a good idea to accelerate income into the current year. If, on the other hand, you expect to be in a lower tax bracket next year, then you would defer the receipt of income. However, tax brackets are not the only consideration.

WHAT IS THE GENIUS ACT?

The GENIUS Act, officially known as the "Guiding and Establishing National Innovation for U.S. Stablecoins" Act, was enacted in July 2025 and established a regulatory framework for Stablecoins, a type of cryptocurrency often pegged to a stable asset like the U.S. dollar. Here's a breakdown of the key aspects of the GENIUS Act:

Definition of Payment Stablecoins:

- The act defines "Payment Stablecoin" as a digital asset used for payment or settlement, maintaining a fixed value relative to a national currency, and designed for redemption at a fixed amount.

Licensing and Regulation of Issuers:

- The GENIUS Act mandates that only "Permitted Payment Stablecoin issuers" can issue Stablecoins. This includes federally or state-qualified entities that meet specific requirements. These issuers must maintain a 1:1 reserve backing for their Stablecoins and adhere to public disclosure obligations.

Reserve Requirements:

- Stablecoin issuers are requird to hold reserves equal to the value of outstanding Stablecoins, ensuring a 1:1 backing, according to a legal analysis.

Consumer Protection:

- The GENIUS Act includes provisions to protect consumers by preventing misleading marketing practices and ensuring that Stablecoins are not misrepresented as being backed by the U.S. government. It also prioritizes Stablecoin holders' claims in the event of an issuer's insolvency.

State and Federal Oversight:

- The act allows for both federal and state-level regulation of Stablecoin issuers. Issuers with total issuance under $10 billion can operate under state regimes, while those exceeding that threshold may require federal oversight.

Enforcement and Compliance:

- The GENIUS Act outlines enforcement mechanisms and establishes a transition period for digital asset service providers (like exchanges and wallets) to comply with the new regulations.

ELECTRIC VEHICLES

Here's a breakdown of qualified EV credits, including key changes that were made under the OBBBA:

Expiration Date:

The federal EV tax credits for both new and used EVs expired on September 30, 2025. Purchase and delivery must have occurred before this date to claim the credit.

Clean Vehicle Credit (Section 30D):

The Section 30D Clean Vehicle Credit provided up to $7,500 for qualifying new electric vehicles (EVs). However, the federal program ended, meaning that vehicles acquired after September 30, 2025, no longer qualify for this tax incentive. Buyers of qualifying vehicles purchased before the deadline must follow specific IRS claim procedures.

Used Clean Vehicle Credit (Section 25E):

The federal Used Clean Vehicle Credit (Section 25E) expired for

all purchases made after September 30, 2025. While you cannot claim it for cars bought in 2026, those who acquired an eligible used EV on or before the September cutoff can still claim the credit on their 2025 tax returns.

YEAR END TAX PLANNING

Tax planning is most effective when it's done proactively throughout the year rather than after year-end. Taking time to plan ahead can help reduce your tax liability and preserve more income for you and your family.

Many taxpayers delay tax planning because paying taxes can feel burdensome or frustrating. It's easy to wait until tax season and "see how everything turns out" between January 1 and April 15. However, once December 31 passes, your options become limited to simply filing and paying what is owed. Planning before year-end gives you the opportunity to make adjustments that could result in meaningful tax savings

1 Prepare a projected tax return using your estimated income and deductions for the year. Based on the results, review and adjust your Form W-4 withholding if necessary.

2 If you receive income that is not subject to withholding, evaluate whether your quarterly estimated tax payments are sufficient. Failing to withhold or pay enough tax during the year may result in penalties and interest, so it is important to address any shortfall before year-end.

3 Stay informed about potential tax law changes. Congress continues to review and revise tax legisla-tion, and new developments may create planning opportunities or require adjustments to your strategy.

4 If you have flexibility over the timing of income or deductions, consider strategies that align with your expected tax bracket. For example, deferring income into the following year may be beneficial if you anticipate being in a lower tax bracket. Conversely, accelerating deductions into the current year may provide greater value if you expect to be in a higher tax bracket now than next year.

5 Be mindful of the Alternative Minimum Tax (AMT), particularly if you expect significant tax items such as depreciation deductions, tax-exempt interest income, or charitable contributions. Planning strategies such as repositioning assets or timing charitable donations may help reduce or avoid AMT exposure.

Investment Planning

INVESTORS

Proper planning can help you time your transactions and make tax-efficient investing decisions. In December 2017, the Tax Cuts and Jobs Act changed the brackets for long-term capital gains and dividends. The OBBA maintained these tax rates, which have their own brackets and are no longer tied to ordinary income brackets. Here are the 2026 brackets for long-term capital gains and dividends:

2026 LONG-TERM CAPITAL GAINS AND DIVIDEND BRACKETS

	0%	15%	20%
Single	$0–$49,450	$49,450–$545,500	$545,500+
Married filing jointly	$0–$98,900	$98,900–$613,700	$613,700+
Head of Household	$0–$66,200	$66,200–$579,600	$579,600+
Married filing separately	$0–$49,450	$49,450–$306,850	$306,850+
Trusts and estates	$0–$3,300	$3,300–$16,250	$16,250+

SHORT-TERM CAPITAL GAIN RATE (ONE YEAR OR LESS)

Taxed at ordinary income tax rate

Dividends	Qualified dividends are taxed at the long-term capital gain rates. Nonqualified dividends are taxed at ordinary income tax rates.

Higher rates apply to collectibles and unrecaptured §1250 gain.

NETTING CAPITAL GAINS AND LOSSES

1. Net short-term gains and short-term losses.
2. Net long-term gains and long-term losses.
3. Net short-term against long-term.
4. Deduct up to $3,000 of excess losses against ordinary income per year.
5. Carry over any remaining losses to future tax years.

DIVIDENDS

Qualified dividends are taxed at the same rates as long-term capital gains.

2026 CAPITAL GAINS AND LOSSES

The One Big Beautiful Bill Act (OBBBA) may significantly impact capital gains and losses for individuals and businesses in 2026 and beyond.

Here's a summary of the key changes related to capital gains and losses for 2026.

For individuals:

- Long-term Capital Gains Rates: The 0%, 15%, and 20% long-term capital gains tax rates remain in place for 2026.
- Income Thresholds: The income thresholds for each capital gains tax bracket have been adjusted for inflation.
- Net Investment Income Tax (NIIT): The 3.8% NIIT continues to apply to high-income earners on investment income, including capital gains.

Qualified Small Business Stock (QSBS):

- For stock acquired after July 4, 2025, the maximum gain exclusion increases from $10 million to $15 million (or 10 times the taxpayer's basis, whichever is greater).
- A new tiered exclusion based on holding period was introduced for stock acquired after July 4, 2025: 50% exclusion for stock held at least three years, 75% for four years, and 100% for five years or more. The portion not excluded is taxed at a 28% capital gains rate, and the remaining gain is eligible for a 20% capital gains rate.

Excess Business Loss (EBL) Limitation:

- The limitation on deducting excess business losses against non-business income was made permanent.

2026 CAPITAL GAINS AND LOSSES CONTINUED

For Business:

Changes for businesses included adjustments to the Qualified Small Business Stock (QSBS) rules for stock acquired after July 4, 2025, and making the 100% bonus depreciation deduction permanent for qualified property acquired and placed in service after January 19, 2025.

APPRECIATING INVESTMENTS

Investments that grow in value without generating income are generally not taxed until they are sold. By choosing the right time to sell, you can strengthen your overall tax and financial situation.

For instance, you might delay selling investments until a year when you are in a lower tax bracket. Another option is to transfer the investments to children over age 19 (or over age 24 if they are full-time students), who may be able to sell them and be taxed at their lower rate. (Though beware of potential gift tax implications.)

Alternatively, if you plan to pass the investment to your spouse tax-free at your death under the unlimited marital deduction, you may wish to keep the investment. The investment may also pass to your beneficiaries tax-free at your death if your gross estate is less than $15 million per individual or $30 million for a married couple, which is the estate tax exemption amount in 2026. Additionally, your heirs may benefit from a step-up in the investment's basis to its fair market value at the date of your death. In other words, at the time of eventual sale, capital gains taxes are assessed only on the increase in property value from the time of inheritance to the time of sale by the heir.

TAX TIP #7

Investments that appreciate without producing income are typically taxed only when sold, allowing you to time the sale for potential tax advantages.

When deciding whether to buy or sell, consider the costs associated with an appreciating investment, including brokers' fees, closing costs, and property taxes, as well as any appreciation.

OTHER CONSIDERATIONS

- Think carefully before you sell appreciated stocks to pay taxes. Doing so may create additional taxable gains.
- Make sure to use the correct basis for any stocks or assets you inherit.
- Keep your "buy and hold" stocks in your taxable account and stocks you may hold for shorter periods (as well as high-yield fixed income securities and CDs) in your tax-deferred account.
- The "wash sale" rule disallows losses if you repurchase substantially identical securities within 30 days. If you sell a mutual fund within 30 days of a reinvested divident, you may violate this rule.
- You have seven years to file retrospective claims for tax refunds if you own worthless securities (but not worthless partnerships).
- The penalties for tax-shelter investments that the IRS deems lack economic substance are up to 40% on unpaid income taxes.
- Bond interest is taxable at regular rates that can reach 37%. When interest rates rise, bond and bond mutual fund values tend to fall. Municipal bonds can be good investments for high-income earners, especially in high-tax states.

MUTUAL FUND STRATEGIES

Mutual funds typically pay capital gain distributions in November or December. If you buy into a fund before the distribution date, you can be taxed on the gains distributed even though they have already been reflected in your purchase price. Therefore, you might want to consider waiting until January to buy into the fund.

Although you have no control over the timing of sales in a mutual fund, you can look for mutual funds that employ certain tax-saving strategies. Some funds trade actively, while others employ a buy-and-hold strategy. Find what works best for your situation.

To calculate exact gains or losses on mutual fund investments, save every statement. Determining which shares are sold can reduce your gain, or at least qualify it as a long-term gain, which is subject to lower tax rates. Also consider everything that comprises your basis:

- Commissions or fees paid when you bought the shares;
- Reinvested dividends for which you have been taxed;
- Nontaxable returns of capital.



PASSIVE ACTIVITIES

Some investment activities are defined as "passive" to prevent them from being used as tax shelters for other types of income. Passive activities are of two types: 1) the owner (often limited partnerships or S Corporations) does not "materially participate" and 2) any rental activity (irrespective of the level of participation) for which payment is mainly for the use of tangible property. There are a few exceptions. Passive activity investments do not include stocks and bonds. There is an exception to the passive-loss restrictions for those who actively participate in renting real estate.

Calendar year filers must report new groupings or changes in how passive activities are grouped. The reporting rules are designed to keep filers from playing games to deduct losses. The grouping rules are important because if two or more activities are grouped as one, the disposition of an activity will not trigger any suspended passive losses until all the others are disposed of.

Passive losses that cannot be deducted in the current year may be carried forward and used when you either dispose of the entire activity or generate passive income to offset them. Any interest earned on loans to passive activities is generally treated as portfolio income and cannot offset passive losses. However, interest earned on loans to partnerships or S corporations engaged in passive activities (such as rental real estate) is treated as passive income to the owners, regardless of their ownership percentage.

To decrease your passive activity interest expense, reduce your debt in a rental activity or convert the debt to home equity debt, which may have tax-deductible interest. You can use the proceeds from a home equity loan to repay passive activity loans.

BONDS

Rather than borrowing money from a bank or a company, a municipality may sell bonds to investors to help raise capital. The interest on tax-exempt bonds (those issued by a municipality) is usually not taxed at the Federal level, but it may be subject to the AMT or cause Social Security benefits to be taxed.



ANNUITIES

Annuities are contracts with life insurance companies that offer another tax-deferred retirement planning opportunity. Potential earnings of an annuity grow tax deferred, just as with a traditional IRA or 401(k) plan. Two popular types of annuities are variable annuities and fixed annuities.

With a variable annuity, the performance of the underlying subaccounts determines the premiums invested and the future payments to the purchaser. Variable annuities may be redeemed for more or less than their original costs. If the owner dies before receiving income from their variable annuity, the beneficiaries are generally entitled to the amount invested in the annuity, regardless of the portfolio's performance. Variable annuities are suitable for long-term investing, particularly for retirement. In addition to sales and surrender charges, variable annuities may impose a variety of fees, including mortality and expense risk charges, administrative and annual contract fees, underlying fund expenses, deferred sales charges, and charges for special features, (such as stepped-up death benefits).

On the other hand, a fixed annuity guarantees regular, fixed payments for a specified period of time or for life. You may pay the premium in installments or as a lump sum. Guarantees are based on the claims-paying ability of the issuer. Early termination of an annuity contract may result in certain surrender charges. Keep in mind that early withdrawals (prior to age 59½) may result in a 10% Federal income tax penalty.

Investment options, including the objective of each subaccount, are detailed in the annuity's prospectus, which also provides information on past performance, management history, fees, and risks. Be sure to read the prospectus carefully before investing.



REAL ESTATE INVESTMENTS

Real estate professionals may be able to deduct some rental real estate losses that were lost by other investors. Generally, you are considered a real estate professional if you (or your spouse if you file jointly) spend more than half your business time dealing with real estate and perform more than 750 hours of services during the tax year in real property trades and businesses. This can include time spent on rental properties. Make sure to keep detailed records of your time and expenses.

LOW-INCOME HOUSING CREDIT

If you are a real estate investor or builder, you can reduce your tax bill with the low-income housing tax credit. This annual credit applies to qualified new low-income housing construction costs. The credit is granted for ten consecutive years. Some or all of it can be taken against tax on any type of income, and the unused credit can be carried forward or carried back. For Federally subsidized construction, and for existing housing acquisition, there is a similar tax credit.

LIKE-KIND EXCHANGES

Sometimes, people who own real estate for investment purposes are reluctant to sell the property because it will incur a large income tax liability on the realized gain. However, the property can be exchanged and the gain postponed (though not eliminated) under the like-kind exchange rules. To qualify, the property received must also be real estate (land and/or buildings) intended for investment or income-producing purposes. Under the Tax Cuts and Jobs Act of 2017, the types of property eligible for this tax treatment are more limited.

To defer gain on an exchange, you need to identify one or more parcels as replacement property. The maximum number that you can identify is either: three properties without regard to the fair market values, or any number of properties as long as their aggregate fair market value does not exceed 200% of the aggregate fair market value of all of the relinquished properties. You must identify the property within 45 days and complete the exchange within 180 days after you relinquish your property, or by the due date of your tax return (including extensions), whichever comes first. The Tax Cuts and Jobs Act states that like-kind exchange rules cannot be used for personal property (such as vehicle trade-ins) unless one portion of the exchange was completed by December 31, 2017 and one portion remained open by that date.

If you receive anything in addition to the property (such as cash) or if you are relieved of any liabilities, you must recognize the gain up to the value of this additional amount received. Any gain you defer reduces the basis of the replacement property by that amount. While you do not have to recognize the gain, you also cannot recognize the loss.

Tax Planning For Business

CHOOSING A BUSINESS STRUCTURE

The business structure you choose must fit your business needs. As your business grows or your financial situation changes, the business form in which you operate may need to change as well. The type of business structure you have impacts your personal tax liability, as well as the amount of tax owed by you and your company.

Each business structure has its benefits and drawbacks. Which is right for you? That decision may be best made between you and your team of financial and legal advisors.

2026 Tax Year

For tax years beginning after 12/31/17, the "C" corporation Federal tax rate is a flat 21%. Owners of business entities that are not taxed as C corporations are eligible for a 20% Qualified Business Income (QBI) deduction.

The deduction for QBI may be limited and/or subject to phase-in, depending on the taxable income of the individual, as well as factors such as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business. For single filers, the deduction phases in at $201,750 and phases out at $276,750 (or $403,500 to $553,500 for married filing jointly).

Personal Service Corporations have a 21% flat tax rate. The capital gains tax rate for C corporations is the same as the regular rate.

FIND AN INVESTOR FOR YOUR BUSINESS THROUGH A SMALL BUSINESS INVESTMENT COMPANY (SBIC)

An SBIC is a privately owned company that's licensed and regulated by the SBA (Small Business Administration). SBICs invest in small businesses in the form of debt and/or equity. The SBA doesn't invest directly into small businesses, but it does provide funding to qualified SBICs with expertise in certain sectors or industries. Those SBICs then use their private funds, along with SBA-guaranteed funding, to invest in small businesses.

SBICs invest in small businesses through debt, equity, or a combination of both. Debt is a loan an SBIC gives to a business, which the business must pay back, along with any interest. Equity is a share of ownership an SBIC gets in a business in exchange for providing funding. Sometimes, an SBIC invests in a business through both debt and equity. Such an investment includes both loans and shares of ownership. A typical SBIC investment is made over a 3-year period.

Debt: A typical SBIC loan ranges from $250,000 to $10 million, with an interest rate between 9% and 16%.
Equity: SBICs will invest in your business in exchange for a share of ownership in your company. Typical investments range from $100,000 to $5 million.

Debt with equity: Financing includes loans and ownership shares. Loan interest rates are typically between 10% and 14%. Investments range from $250,000 to $10 million.

	Tax Rates	Liability
C Corporations	C corporations' federal marginal tax rates are a flat 21%. Distributions may be taxed again. Shareholders pay tax on dividends. Losses do not pass through to shareholders.	Shareholders are shielded from personal liability for business debts. Only their investment is at risk.
S Corporations	Generally, no Federal tax is imposed on the business entity. Income and expenses are allocated among shareholders. Taxable income is subject to individual rates from 10% to 37%, whether profits are distributed or not. Losses pass through to shareholders. Restrictions on loss deductibility apply. State treatment of S corporations may vary.*	Shareholders are shielded from personal liability for business debts. Only their investment is at risk.
General Partnerships	No Federal tax is imposed on the business entity. Income and expenses are allocated among partners, and each pays tax of 10% to 37% (plus self-employment tax, if applicable) on their share of partnership profits, whether distributed or not. Losses pass through to partners. Restrictions on loss deductibility apply.*	Personal liability rests with each partner.
LLCs & LLPs	No Federal tax is imposed on the business entity. Income and expenses are allocated to members or partners, and each pays tax of 10% to 37% (plus self-employment tax, if applicable) on their share of LLC or LLP profit, whether distributed or not. Losses pass through to members or partners. Restrictions on loss deductibility apply.*	Members or partners are shielded from personal liability for business debts. Only their investment is at risk.
Sole Proprietorships	Reported on Schedule C of Form 1040, income is subject to individual rates of 10% to 37%, plus self-employment tax.*	Proprietors are subject to personal liability for all aspects of the business.

* Owners of business entities, which are not taxed as C corporations, are eligible for a 20% Qualified Business Income (QBI) deduction. The deduction for QBI may be limited and/or subject to phase-in, depending on the taxable income of the individual, as well as such factors as the type of business, amount of wages paid by the business, and amount of capital assets owned by the business.

EMPLOYER-PROVIDED BENEFITS

Many companies offer generous benefit packages to attract and retain quality employees. Businesses can avoid payroll taxes on compensation shifted from salary to benefits. Employees who receive certain benefits in lieu of salary also decrease their taxable compensation. Such benefits can include retirement plans, group term life insurance (up to $50,000), medical insurance, parking, employee discounts, and noncash gifts.

Employer-provided group term life insurance coverage for more than $50,000 produces taxable income for covered employees. The amount of taxable income is determined by using a uniform premium table based on employee age.

TAX TIP #8

Nonqualified retirement plans can be attractive because, unlike qualified retirement plans, they don't restrict the amount of benefits a higher-paid employee can receive. Nonqualified plans do not have to cover every employee.

QUALIFIED & NONQUALIFIED RETIREMENT PLANS

One of the most effective ways to attract and retain employees is through a company-sponsored retirement plan. Many pension and profit-sharing plans are "qualified" retirement plans. This means that each employee's share and earnings are held until the employee either leaves the company or retires. The employee pays taxes upon receiving the money, and the employer receives an immediate deduction when making contributions.

Pension plans usually base eventual benefits on wages and length of service. Profit-sharing plans typically define the employer's annual contribution. Benefits are determined by the size of the contributions and their earnings.

Two types of qualified retirement plans — SIMPLEs and 401(k) plans — can be offered at little cost to a business. Contribution limits for these plans have increased over the years, so there is no better time to sponsor one. Refer to the chart on page 22 to determine which plan might be appropriate for your business.

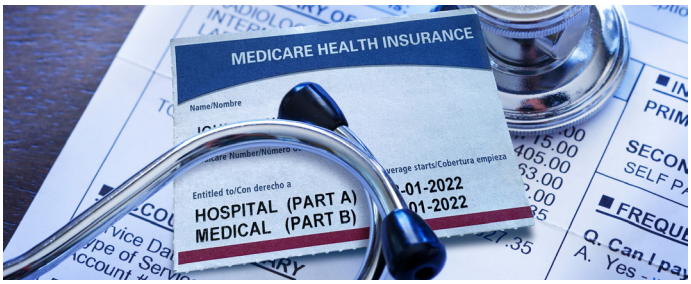
Because qualified retirement plans often restrict the amount of benefits a higher-paid employee can receive, nonqualified plans can be attractive. Nonqualified plans do not have to cover every employee. There are no compensation, benefit, or contribution limits other than an overall reasonableness test. The bookkeeping and reporting requirements are minimal. However, nonqualified plans do have some disadvantages.

The main drawback is that the benefits are unsecured—they are merely "promises to pay." A company cannot formally set aside funds as future benefits. Assets intended for these benefits must remain general company assets and, therefore, may be subject to a creditor's claims. Another disadvantage is that payroll taxes are generally due when services are performed, not when compensation is paid. Finally, the employer does not receive a tax deduction until the benefits are actually paid to the covered employees.

HEALTH INSURANCE - ACA

The IRS has updated the revenue procedure which indexes the health plan contribution percentage required by employers when determining whether an employer's plan is considered affordable under the Affordable Care Act (ACA). With penalties for noncompliance rising, it is vital employers pay close attention to the changing parameters around ACA regulations.

The IRS updated employer ACA requirements for tax year 2026. Noncompliance for Penalty A is $3,340 per full-time employee, and for Penalty B it is $5,010 per affected employee. The IRS wants the rising cost of noncompliance to serve as an incentive for employers to examine their group health plan offerings.



PENALTIES OUTLINED

- Penalty A: Failure to offer coverage to 95% of full-time, benefits eligible employees
- Penalty B: Failure to provide affordable, minimum value coverage to a benefits eligible employee

The affordability threshold is used for employer shared responsibility to determine whether employer-sponsored health coverage is affordable. In other words, it represents the amount of household income eligible individuals can contribute toward the cost of coverage in order for coverage to be considered affordable. These changes affect how much employers can charge for health coverage for 2026 and how much in penalties employers can be assessed through Employer Shared Responsibility Payments.

The IRS increased the ACA affordability percentage for 2026. This percentage is important when setting employer contributions for self-only coverage for plans beginning on or after January 1, 2026. Coverage will be considered affordable if an employee's required contribution for self-only coverage does not exceed 9.96% of their household income. Employers who are out of compliance are subject to increased IRS penalties.

Employers currently charging employees the maximum allowable amount while maintaining affordability status will need to consider the new 2026 affordability percentage when establishing cost sharing for the upcoming plan year.

WHAT STAYS THE SAME IN 2026?

- Employers must continue to provide affordable coverage that provides minimum value to 95% of full-time employees for each calendar month of the year.
- Employers must continue to meet employer mandate requirements by managing employee eligibility.
- Forms 1094 and 1095 must be completed accurately and employees must be provided with information (Form 1095) in a timely manner.

WHICH IS BEST FOR YOUR BUSINESS? SIMPLE VS. STANDARD 401(K)			
2026	**Simple IRA**	**Simple 401(k)**	**Standard 401(k)**
Maximum Business Size	100 or fewer employees	100 or fewer employees	No Limit
Individual Contribution Limit	$17,000	$17,000	$24,500
Discrimination Testing	No	Limited	Yes
Mandatory Employer Match	Yes, 1% – 3% of salary	Yes, 3% of salary	No
Vesting	Immediate	Immediate	Up to 7 years
Administration	Least	Medium	Most
Catchup Contribution 50+	$4,000	$4,000	$8,000
Special Catchup for ages 60-63	$5,250	$5,250	$11,250

HEALTH SAVINGS ACCOUNTS (HSAS)

When considering health care benefits, you may want to consider a health savings account (HSA). This portable health care account is available to those who are covered by a high-deductible health plan (HDHP). Employers of any size can set up an HSA plan, and contributions may be made through a flexible spending account.

HSAs reimburse the same expenses as a health flexible spending account (FSA), without the "use-it-or-lose-it" consequences when the plan year ends or the participant changes jobs. Additionally, HSA earnings accumulate tax-free.

You can carry over HSA balances from year to year, or roll over an old Medical Savings Account into an HSA if you do so within 60 days. You can roll IRA funds into an HSA once, up to the maximum annual contribution. A one-time transfer from an IRA to an HSA may make tax sense if after-tax contributions were made to the IRA. Making a medical payment from an HSA after an IRA rollover saves you tax and a 10% penalty on early distributions from the IRA. HSAs can be tapped to pay Medicare Part D premiums if the owner is age 65 or older, but withdrawals to pay them for a spouse are taxed as income and hit with a penalty if the account owner is under age 65. HSAs can be used to pay premiums for COBRA coverage for a spouse or dependent (or medical premiums for them if they're unemployed). Employers can open HSAs and contribute to them if they include all eligible workers. The contributions are then tax-free to the employees and also free from payroll and income taxes.

If funds accumulated in an HSA are used for anything other than eligible medical expenses, the account beneficiary is required to pay taxes, plus a 20% penalty. However, there is no penalty for distributions following disability, death, or retirement (at Medicare eligibility age).

2026 Health Savings Accounts		
	Individual	Family
Minimum Deductible	$1,700	$ 3,400
Maximum out of Pocket	$8,500	$17,000
Max HSA Contribution	$4,400	$ 8,750
Additional Contribution for Individuals 55+**	$1,000	$ 2,000*

*If both spouses are in age range
** Not subject to inflation adjustment

HEALTH REIMBURSEMENT ARRANGEMENTS (HRAS)

A health reimbursement arrangement (HRA) is an employer-provided plan that reimburses em-ployees for qualified medical expenses. This can include copays, deductibles, prescriptions, vision care, certain dental costs, and medical or long-term care insurance premiums. Reimbursements are tax-free to employees and tax-deductible for employers. The employee can carry forward any un-used HRA account fund from year to year. Employees may request reimbursement for medical ex-penses at the time services are rendered, accumulate expenses for reimbursement in the future, or save funds in the HRA for retiree health benefits.



FLEXIBLE SPENDING ACCOUNTS (FSAS)

Flexible spending accounts (a.k.a. Section 125 plans) provide an IRS-approved way to lower taxes for both employers and employees. There are several types of FSAs, but the Medical Expense FSA and the Dependent Care FSA are the most common. These plans allow employees to redirect compensation to pay for qualified unreimbursed medical expenses dependent care expenses, adoption expenses, and certain insurance premiums before personal taxes are computed on their paychecks. Employees end up paying less tax because their taxable income is lower.

The business pays less in Social Security matching funds because employees do not pay Social Security tax on amounts placed in their plan accounts. While sole proprietors, partners, members of an LLC or LLP (in most cases), and individuals owning more than 2% of an S corporation may not participate in flexible spending accounts, they may still sponsor a plan and benefit from lower payroll taxes.

2026 DEPENDENT CARE FSA CONTRIBUTION LIMITS

The Health Care (standard or limited) FSA annual maximum plan contribution limit will be $7,500 per household (or $3,750 if married filing separately) for plan years beginning on or after January 1, 2026. It applies to eligible expenses, such as daycare and preschool, and is a significant increase from the previous $5,000/$2,500 limit in 2025.

The Health Care (standard or limited) FSA rollover maximum limit will increase to $680 for plan years beginning on or after January 1, 2026. Claims for 2026 must be submitted by March 31, 2027, to be reimbursed.

MEDICAL EXPENSE REIMBURSEMENT

Under current law, only medical expenses that exceed 7.5% of AGI are deductible on your 2026 tax return. Since many medical expenses are not covered by insurance plans, paying for them through a flexible spending account with tax-free dollars provides an opportunity for savings.

With a flexible spending account, certain medical expenses essentially become tax deductible. Covered expenses include insurance deductibles and copays, doctor's office visits, dental and orthodontia expenses, vision care, eye surgery, prescription drugs, and medical transportation costs.

TAX TIP #9

Tax credits are a great way to lower your business' tax bill as they offer a dollar-for-dollar reduction in tax liability.

HEALTH INSURANCE

By allowing employees to deduct health insurance premiums from their pay on a pre-tax basis, the employer can save on taxes. In fact, for every dollar employees spend on health insurance, the employer saves 7.65%, or the FICA match.

Premium Only Plans are easy to set up and administer, and unlike other types of flexible spending accounts, they do not require filing claims or an IRS tax filing.

529 COLLEGE SAVINGS PLANS AT WORK

Employers seeking ways to attract and retain a qualified workforce may want to consider including a 529 college savings plan as an incentive in their benefit packages, which may be offered with or without company matching contributions. To ease the process for employees and to encourage a disciplined approach to saving, many companies arrange contributions through automatic payroll deductions.

The IRS treats contributions toward 529 college savings plans as gifts for tax purposes. In 2026, however, individuals can gift up to $19,000 a year to any other individual without needing to report the funds to the IRS for purposes of a gift tax.

Individuals can put up to $95,000 into a 529 plan over a five-year period while still having that money excluded from the gift tax. Married couples filing jointly can do the same for up to $190,000. However, they'd need to put a hold on making further contributions for five years; to the same student.

You can make contributions between $19,000 and $95,000, and those funds will be prorated through five years. So you can transfer $60,000 in one year and the IRS will treat it as $12,000 contributed per year over five years. Therefore, you can make additional transfers of up to $7,000 each of those years and still avoid gift tax.

BUSINESS TAX CREDITS AND DEDUCTIONS

Tax credits are a great way to lower your business' tax bill because they offer a dollar-for-dollar reduction in tax liability. To take full advantage of these credits, be sure to monitor changes in Federal law and remember that some incentives are temporary, while others are subject to Congressional renewal. The Tax Cuts and Jobs Act of 2017 contains many tax breaks for businesses, but there are a number of tax breaks that were eliminated or reduced. More recent legislation, such as the 2020 Coronavirus Aid, Relief, and Economic Security Act as well as the American Rescue Plan Act of 2021, also included some provisions for business tax breaks. We can help you monitor changes in tax law and determine which credits are available to you.

SECTION 199A DEDUCTION

The Section 199A Qualified Business Income (QBI) deduction, previously set to expire at the end of 2025, was made permanent by the One Big Beautiful Bill Act (OBBBA). This deduction allows eligible non-corporate taxpayers (individuals, estates, and trusts) to deduct up to 20% of their qualified business income.

Here are the key aspects of the Section 199A deduction under the OBBBA:

- Permanence: The deduction is now a permanent part of the tax code, providing long-term tax planning certainty for businesses and their owners.

Deduction Calculation:

- The core calculation remains the lesser of 20% of qualified business income (plus 20% of qualified REIT dividends and Publicly Traded Partnership income) or 20% of taxable income (less net capital gain).

Eligibility:

Individuals, estates, and trusts with pass-through business income from sole proprietorships, partnerships, and S corporations are generally eligible.

Income Thresholds and Limitations:

- The deduction is subject to income-based phase-outs and limitations related to W-2 wages and the unadjusted basis of qualified property.

Phase-in Thresholds Increased:

- OBBBA increased the phase-in range for the wage and property limitations (and for the exclusion of Specified Service Trades or Businesses (SSTBs)) to $201,750 for single filers and $403,500 for joint filers. These thresholds will be indexed for inflation.

Minimum Deduction:

- The OBBBA introduced a minimum deduction of $400 for taxpayers with at least $1,000 of QBI from active qualified trades or businesses, provided they materially participate in the business.

SSTB Restrictions:

- Pass-through entities classified as specified service trades or businesses (SSTBs), such as those in the fields of accounting, healthcare, and law, may have their ability to claim the deduction restricted once their income exceeds certain thresholds.

Important Notes:

- The OBBBA did not increase the deduction rate beyond the existing 20%.
- While the increase in the phase-in thresholds makes the deduction available to higher-income taxpayers, the deduction is

not available to all high-income earners or all types of businesses.
• The deduction is available whether a taxpayer itemizes deductions or takes the standard deduction.

KEY CHANGES RELATED TO SECTION 179 UNDER OBBBA

Increased Deduction Limit:
• The maximum Section 179 deduction is now $2.56 million for eligible assets placed in service during the 2026 tax year, an increase from the previous limit.
Increased Phase-Out Threshold:
• The phase-out threshold increased to $4.09 million for 2026, meaning the deduction starts to be reduced once a business places more than this amount of Section 179 property in service.
Inflation Adjustment:
• Both the maximum deduction and phase-out threshold will be adjusted for inflation annually.
Qualifying Property:
• Section 179 property generally includes tangible property and some computer software or qualified real property. Qualified real property covers items like roofs and HVAC systems for non-residential property.
Business Use Requirement:
Property must be used more than 50% for business purposes.
No Loss Creation:
• Unlike bonus depreciation, Section 179 cannot create or increase a net operating loss.

TAX TIP #10

Plan qualifying purchases before the end of the year to maximize your depreciation deduction.

COMPARISON WITH BONUS DEPRECIATION

OBBBA also permanently reinstated 100% bonus depreciation for qualified property placed in service after January 19, 2025.

Here's a brief comparison:
• Deduction Type: Section 179 is a fixed dollar deduction, while bonus depreciation is a percentage-based deduction.
Taxable Income Limitation:
• Section 179 is limited by business income and cannot create a net operating loss, while bonus depreciation has no such limit.
Flexibility:
• Section 179 allows for item-by-item expensing, whereas bonus depreciation is typically taken for all eligible assets within a class.
Real Property:
• Section 179 can apply to some real property improvements, unlike bonus depreciation.

MID-QUARTER CONVENTION

Maximize your depreciation deduction by planning qualifying purchases before the end of the year. However, be sure to avoid having depreciation deductions reduced as a result of the "mid-quarter convention," which occurs when more than 40% of your total new property is placed in service during the last three months of the tax year. Purchases fully deducted as Section 179 expenses are removed from the mid-quarter convention computation.

WHAT IS A COST SEGREGATION STUDY?

A cost segregation study refers to a tax strategy that involves analyzing a building's components to reclassify assets into shorter depreciation periods for tax purposes. This allows for faster depreciation of certain elements like flooring, cabinetry, electrical systems, and landscaping over 5, 7, or 15 years, instead of the standard 27.5 or 39 years for the entire building.

Cost segregation studies offer several benefits when combined with the OBBBA, including:
Accelerated Depreciation:
• Claiming larger depreciation deductions earlier reduces current tax liability.
Increased Cash Flow:
• Lower taxable income from larger deductions frees up cash flow.
Reduced Tax Liability:
• Directly lowers the overall tax burden.
Improved Return on Investment (ROI):
• Enhances ROI through reduced taxes and increased cash flow.
Flexibility for Future Investments:
• Cash flow savings provide flexibility for expanding property portfolios or undertaking further renovations.
Compliance and Audit Protection:
• A properly conducted study provides documentation to support asset reclassification, reducing audit risk.

2026 BUSINESS VEHICLE DEPRECIATION

The One Big Beautiful Bill Act (OBBBA) significantly impacted depreciation rules for business vehicles, primarily by making 100% bonus depreciation permanent for qualifying assets, including vehicles, placed in service after January 19, 2025.
BONUS DEPRECIATION
Permanent 100% deduction:
• For most new and used vehicles placed in service after January 19, 2025, businesses can deduct 100% of the cost in the first year.
Qualifying property:
• This applies to a broad range of tangible business property with a recovery period of 20 years or less.



Business use requirement:
• To qualify, the vehicle must demonstrate more than 50% qualified business use in the year it's placed in service.
Combined with bonus depreciation: Generally, Section 179 is applied first, then bonus depreciation on the remaining basis.
SPECIFIC RULES FOR VEHICLES
Vehicles under 6,000 lbs GVWR (Gross Vehicle Weight):
• These are subject to "luxury car" depreciation caps, limiting the first-year deduction. With bonus depreciation, the first-year cap is $20,200. Without bonus depreciation, it's $12,200.
Heavy SUVs and trucks (6,000 to 14,000 lbs GVWR):
• These have a specific Section 179 deduction of $31,300. The remaining cost can still be eligible for 100% bonus depreciation if

the vehicle was placed in service after January 19, 2025.

Vocational/specialized vehicles (over 14,000 lbs GVWR or modified for business use):

- These typically qualify for the full Section 179 deduction (up to $2.56 million in 2026) and are not subject to the same limitations as passenger vehicles.

Important considerations

Business use:

- Thorough documentation of business use (e.g., mileage logs) is crucial to support depreciation deductions.

Recapture rules:

- If the business use percentage drops below 50% in future years, previously claimed deductions may be recaptured as income.

State variations:

- Some states may not fully conform to federal Section 179 and bonus depreciation rules, potentially requiring businesses to maintain separate depreciation schedules.

TRAVEL EXPENSES

The Tax Cuts and Jobs Act of 2017 changed the way businesses handle meals, entertainment, and transportation expenses from a Federal tax perspective.

ENTERTAINMENT DEDUCTION

Tax deductions for entertainment have been eliminated, even if it is directly related to the conduct of business.

TAX TIP #11

Support your depreciation deductions with thorough documentation of business use (e.g., mileage logs).

MEALS

For the 2026 tax year, business meal deductibility is subject to the rules established by the Tax Cuts and Jobs Act (TCJA) of 2017, with some modifications from the Consolidated Appropriations Act (CAA) of 2020.

50% Deduction:

- Most business meals are 50% deductible.
- This includes meals with clients, meals while traveling for business, employee meals at conferences and meetings, and food for board meetings.

100% Deductible Meal Expenses:

- Company-wide events: Holiday parties or picnics for all employees.
- Meals provided as compensation: If the cost of meals is included as part of an employee's taxable compensation (and reported on their W-2), the employer can deduct 100% of the cost.
- Meals for the public: Meals provided free to the public as part of advertising or promotion.

Important Considerations:

- Substantiation: Proper records must be kept supporting business meal deductions.
- Business Purpose: The meal must have a clear business purpose.
- Not Lavish or Extravagant: The meal must not be considered lavish or extravagant.
- Taxpayer's Presence: You or one of your employees must be present during the meal.

TRANSPORTATION

The tax law changes of 2017 also eliminated deductions for qualified transportation fringe benefits and certain expenses to provide commuting transportation to employees. The cost of providing employee's transit passes or parking is no longer allowed as a deduction to the employer. In addition, the costs associated with providing transportation for an employee's commute to work are not deductible unless necessary to ensure an employee's safety.



Business related travel expenses are still tax-deductible. This includes business travel between job sites, travel to a temporary assignment (generally one year or less) that is outside your general area of residence, travel between primary and secondary jobs, and all other cab, bus, train, airline, and automobile expenses. Any regular commuting expenses to your primary job cannot be deducted. The Tax Cuts and Jobs Act changed the deductibility of unreimbursed employee expenses. Previously if a taxpayer incurred business travel expenses that the company did not reimburse, they could deduct these on their individual income tax return (subject to limitations), but under the recent law changes this is no longer allowed.

SUBSTANTIATION REQUIREMENTS

For business travel deductions, keep any supporting documents for expenses. Document the following: Date, place, amount, and business purpose of expenditures; name and business affiliation or business purpose of trip; and in the case of meals, all of the above must directly precede or follow a substantial business discussion associated with your business. Be sure to keep personal expenses separate from business expenses.

EXPENSE REIMBURSEMENT PLANS

Companies may institute "accountable" or "nonaccountable" expense reimbursement plans. Generally, accountable plans better serve both the employer and employee.

Under accountable plans, employees submit mileage logs or actual expense receipts for which they are reimbursed at the standard mileage rate or for actual expenses. The company deducts the reimbursements in full, and employees do not report them as income or deduct related expenses.

Under nonaccountable plans, employees receive flat expense allowances. Employees must declare the allowance as income, and the expenses are taken as miscellaneous itemized deductions, subject to the deduction floor. The employer may owe FICA on the allowances.

EMPLOYING YOUR CHILDREN

There are some tax advantages to putting your teenage son or daughter to work in your business. Wages paid to your child are fully deductible as a business expense. If you are a sole proprietor or a partner in a partnership in which only you and your spouse are partners, you do not have to pay FICA on those wages if the child is under age 18, nor do you have to pay unemployment insurance if the child is under age 21. The child's wages may be subject to a lower tax rate than if you were to retain the same money as business earnings.

Your children will have to pay tax on the salary you pay them to the extent it exceeds the standard deduction. In 2026 children, who are likely in lower tax brackets, pay a 0% rate on earned income up to maximum $16,100.

EMPLOYEE VS. INDEPENDENT CONTRACTOR

Your business may have already discovered the advantages of outsourcing projects or certain business functions, including payroll taxes, insurance, and benefit cost savings. Be aware, however, that the IRS continues to scrutinize whether a worker has been properly classified as an employee or an independent contractor. If an audit reveals a worker's status has been misclassified, the business may face penalties and additional employment taxes.

A business is advised to consider all the factors that might indicate its control or the worker's independence in determining whether a worker is an employee under common law. According to the IRS, factors that provide evidence of control and independence fall into three categories: behavioral control, financial control, and type of relationship. Give us a call if you would like to discuss these factors.



BENEFITING FROM BUSINESS LOSSES

If your business has experienced losses, make sure you take advantage of every allowable deduction. Net operating losses (NOLs) are generated when a company's deductions for the tax year are more than its income. Under the Tax Cuts and Jobs Act of 2017, carrybacks of NOLs are no longer allowed, but an indefinite carryforward of NOLs is allowed. The current tax law also sets a limit on the amount of NOLs that a company can deduct in a year equal to the lesser of the available NOL carryover or 80% of a taxpayers pre-NOL deduction taxable income. Corporate capital losses are also deductible, but only to the extent of capital gains. A three-year carryback and a five-year carryforward period apply.

If your business is not incorporated or operates as a partnership, S corporation, or LLC, you may deduct business losses on your personal tax return. But losses may be limited because of the at-risk or passive activity loss rules. Keep in mind that you can only deduct your share of losses to the extent that you have sufficient income tax basis for your investment.

See if you can benefit from other possible loss deductions. You may be able to deduct all or some bad business debts as ordinary losses when your good-faith collection efforts are unsuccessful. Inventory losses, casualty and theft losses (to the extent they are not covered by insurance), and losses from a sale of business assets may also be deductible.

BUSINESS SUCCESSION PLANNING

When it comes to closely held businesses, on average, only one in three successfully passes on to the next generation. A lack of proper transition planning is often why businesses fail after their founders retire, sustain a disability, or die. By implementing a business succession plan, you can help protect your company's future. At a minimum, a sound plan may help you accomplish the following:

1. Transfer control according to your wishes.
2. Carry out the succession of your business in an orderly fashion.
3. Minimize tax liability for you and your heirs.
4. Provide financial security for you and your family after you step down.

To be successful, you need to examine the immediate, intermediate, and long-term goals of your family and your business. With a timeline in place, it is possible to fine-tune your plan based on the involvement you wish to have in the company and the future you envision for your business.

As you develop the appropriate tax and financial strategies, two important steps are valuating your business and deciding how to transfer ownership. There are many valuation methods. Depending on your situation, one technique may be more appropriate than another. The common goal for business owners selling their businesses is to reach a valuation that fairly compensates the owner for his or her interest, while making the price attractive to the potential buyer. Profit may be less of a concern for owners who are passing a business to children.

Owners have a variety of options for transferring ownership, and the most appropriate strategy depends on your specific situation, considering your personal financial and tax situation, your current form of business ownership (sole proprietorship, partnership, corporation, etc.), and the future owners (family, employees, third party, etc.). One or more of the following tax minimization strategies can play a key role in your planning process:

- Gift stock to family members. Begin now so ownership can be transferred while avoiding unnecessary transfer taxes.
- Utilize a buy-sell agreement that fixes the estate tax value of your business. An effective agreement provides estate tax liquidity and provides your successors with the means to acquire your stock.
- Create an Employee Stock Ownership Plan (ESOP) and sell your stock to the plan. Special rules allow you to sell your stock to the ESOP and defer the capital gains tax if you reinvest in qualified securities. Ownership can be transferred to your employees over time, and your business can obtain income tax deductions for plan contributions.
- Plan to qualify for the estate tax installment payment option. This allows you to pay the portion of your estate tax attributable to your closely held business interest over a period of up to 14 years. Artificially low interest rates apply during the tax-deferral period. Other special rules also apply.

Planning for the Future

RETIREMENT STRATEGIES

It is never too early to start planning for retirement. Over the years, tax reform has enhanced certain planning opportunities, such as with the Setting Every Community Up for Retirement Enhancement (SECURE) Act signed into law in December 2019. It is the most far-reaching retirement legislation passed by Congress since the Pension Protection Act of 2006. The SECURE Act incentivizes employers to offer defined contribution (DC) plans, promotes lifetime income options, and improves retirement plan accessibility, design and administration You may still have time to accumulate sufficient retirement assets, provided you plan ahead, stay disciplined, and regularly review your strategies. In late December 2022, Congress passed and the President signed the Omnibus Appropriations Bill which included the SECURE Act 2.0.

Retirement plan contributions can offer two large tax benefits: they can 1) potentially reduce your AGI and current income tax liability and 2) grow faster than your other assets because they're exempt from tax until withdrawn. (Roth-type accounts are notable exceptions; withdrawals are generally not taxed.) Take advantage of your employer's plan, especially if it features an employer match (which is free money for you once it is vested) or you qualify for catch-up contributions (age 50 or older).

If you have stock from your company in your retirement plan, find out its "cost basis" now; this number will help determine your later taxes and affect how you should take distributions. Employee contributions to pension plans can be rolled over into another plan via a trustee-to-trustee transfer. Non-spousal as well as spousal beneficiaries can roll over a decedent's interest in a qualified plan under strict rules. Consult with your advisor.

If you withdraw funds from your IRA before you reach age 59½, you may be subject to a 10% tax penalty. Withdrawals for qualified college expenses or to fund up to $10,000 of a first home purchase are taxed, but you are not penalized for the early withdrawal.

TAX TIP #12

The IRS deadline for 401(k) plan sponsors to formally adopt written amendments is December 31, 2026.

OBBBA BROUGHT CHANGES TO 401(K) PLANS:

Increased Contribution Limits:

• The OBBBA increased contribution limits for 401(k) plans, including higher elective deferrals and catch-up contributions, especially for those aged 60–63.

Catch-up Contributions:

• While those aged 50 and older can still make catch-up contributions, the OBBBA introduced a higher limit for individuals aged 60-63 to encourage more savings.

Interaction with SECURE Act Changes:

• The OBBBA aligns with existing Internal Revenue Code provisions and IRS guidance, including changes from the SECURE and SECURE 2.0 Acts. Plan sponsors and individuals should review these rules.

Expanded Options:

• The OBBA enhanced SIMPLE IRAs and SIMPLE 401(k) plans, offering more flexibility and encouraging employer contributions.

SECURE ACT 2.0 - 2026 CHANGES

Here are 2026 retirement plan changes, guidelines, and recommendations

The SECURE 2.0 Act of 2022, signed into law on December 29, 2022, expands retirement plan access, encourages greater savings, and streamlines plan administration. It built on the original 2019 SECURE Act and includes phased-in provisions extending through 2026 and beyond.

☑ 401(k) plans must be formally amended by December 31, 2026 by a "written" plan amendment.

☑ Mandatory Required Minimum Distributions (RMDs) must begin at age 73.

☑ For 2026, there are no dollar limits on direct transfers or rollovers from one eligible employee retirement account to another (such as a 401(k) to an IRA). However, there are strict IRS limits on how much an employee can contribute or receive as employer contributions each year.

☑ An additional 10% tax applies to early distributions from tax-preferred retirement accounts, such as 401(k) plans and IRAs. There's an exception for certain distributions used for emergency expenses, which are "unforeseeable or immediate financial needs relating to personal or family emergency expenses." One distribution is permissible per year (up to $1,000) and there's an option to repay the distribution within three years. No further emergency distributions are permissible during the 3-year repayment period unless repayment occurs.

☑ A plan sponsor may amend its plan to offer short-term emergency savings accounts (ESAs) as part of a defined contribution plan. ESAs must be funded post-tax with Roth contributions, and participants may be automatically enrolled at a rate of up to 3% of compensation. Contributions are capped at $2,600 per year (indexed for inflation) and there cannot be minimum contribution or balance requirements. Participants must be allowed to take at least one withdrawal per month; the first four withdrawals per year cannot be subject to fees. ESAs may be invested in cash, interest-bearing deposit accounts, and principal preservation accounts. There is a fiduciary safe harbor for automatic enrollment.

☑ An employer may make matching contributions under a 401(k) plan, 403(b) plan, governmental 457(b) plan, or SIMPLE IRA with respect to "qualified student loan payments." A qualified student loan payment is broadly defined as any indebtedness incurred by the employee solely to pay qualified higher education expenses. For purposes of the nondiscrimination test applicable to elective contributions, the plan may test separately the employees who receive matching contributions on student loan repayments.

☑ The act allows the hardship distribution rules for Section 403(b) plans to those of Section 401(k) plans. As such, a 403(b) plan may distribute qualified nonelective contributions, qualified matching contributions, and earnings on any of these contributions (including elective deferrals). Also, distributions from a 403(b) plan are not treated as failing to be made upon hardship solely because the employee does not take available loans.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS) 2026

IRAs are an attractive option for retirement savings. Traditional IRA contributions may be tax deductible, depending on your income and participation in an employer-sponsored retirement plan. Contributions and earnings accumulate on a tax-deferred basis. However, income taxes are due when distributions are taken. Keep in mind, the OBBBA did not fundamentally change the rules or contribution limits.

The contribution limit is $7,500 in 2026 (and will be adjusted for inflation each year). If you are age 50 or older, you can contribute $8,600. The total of your contributions to one or more IRAs may not exceed these limits. Deductions phase out for active participants in an employer-sponsored plan as follows: for single filers with AGIs between $81,000 and $91,000, and for joint filers with AGIs between $129,000 and $149,000. Due to changes from the SECURE Act, for tax years beginning in 2020, working individuals are allowed to contribute to a traditional IRA regardless of their age. (The age cutoff used to be 70½.)

A "nonparticipant" spouse may make a deductible IRA contribution, as long as the couple's AGI is less than $252,000. A working spouse can find a "spousal IRA" for a nonworking partner, and the nonworking spouse can contribute up to $7,500 (with an additional $1,100 if age 50 or older).

Required minimum distributions (RMDs) are required once the owner of a traditional IRA reaches age 73. The first RMD can be delayed until April 1 of the year after turning 73 (a change since the passing of The SECURE Act). For each year thereafter, the deadline is December 31. The RMD amount is determined by 1) the previous-year year-end IRA balances and 2) a life-expectancy schedule provided by the IRS. With the passing of The SECURE Act in December 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. Many will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder.

Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent. It is important to recognize that anyone who has inherited an IRA from an original IRA account holder prior to January 1, 2020 may continue to receive the same RMD's based on their current distribution schedule. Tax will be due on withdrawal of the deductible contributions and earnings (see Roth IRA income limits chart on page 29).



ROTH IRAS 2026

Roth IRAs have tax-free distributions and continue to be popular savings vehicles. Contributions to Roth IRAs are not deductible and are subject to income limitations. As with traditional IRAs, you may contribute up to $7,500 to a Roth IRA in 2026 ($8,600 if you are 50 or older). Again, combined contributions to one or more IRAs may not exceed these limits.

The greatest benefits of Roth IRAs may be in transferring wealth to heirs. A Roth IRA is not subject to Required Minimum Distributions (RMDs) during the owner's lifetime, contributions are allowable at any age, and may provide far more to a beneficiary than other plans. Assets in the account for five tax years can pass to heirs without current income tax. Non-spousal beneficiaries of a Roth IRA have to take minimum distributions (which are tax-free) but can stretch them out over a lifetime. In the meantime, the Roth continues to enjoy tax-free growth.

A Roth can grow into a large sum for a child who has earned income. The parent can fund the account but the contribution amount cannot exceed the child's earned income.

IS MY IRA CONTRIBUTION DEDUCTIBLE?

Work	Status	Modified AGI	Contribution Limit
You're covered by retirement plan at work	Single and Head of Household	$81,000 or less $81,001–$90,999 $91,000 or more	Fully Deductible Partially Deductible Not Deductible
	Married, Filing Jointly	$129,000 or less $129,001–$148,999 $149,000 or more	Fully Deductible Partially Deductible Not Deductible
Neither you nor your spouse is covered by retirement plan at work	Single and Head of Household	No Limits	Fully Deductible
	Married, Filing Jointly	No Limits	Fully Deductible
You're not covered by retirement plan at work but your spouse is	Married, Filing Jointly	$242,000 or less $242,001–251,999 $252,000 or more	Fully Deductible Partially Deductible Not Deductible
	Married, Filing Single	$10,000 or less $10,001 or more	Partially Deductible Not Deductible

TAX TIP #13

If you're a senior, switching from a Traditional IRA to a Roth IRA can make more of your Social Security benefits taxable in that year. Additionally, the increase in income could cause you to lose some tax breaks.

TRADITIONAL IRA OR ROTH IRA? WHICH IS BEST FOR YOU?

Owners of traditional IRAs may continue to convert these accounts to Roth IRAs, regardless of income, allowing more taxpayers to take advantage of the Roth IRA through direct contributions or conversions. When converting, the distribution from your traditional IRA is taxed, but you are not penalized for the early withdrawal.

Switching to a Roth from a traditional IRA can make more of seniors' Social Security benefits taxable in that year, and the increase in income could cause loss of some tax breaks. Try to schedule the conversion in a year your income dips or you have investment losses. Upper-incomers may have to pay a surcharge on their Medicare Part B premiums, and Roth conversion income counts toward the AGI trigger point. Even lower-income seniors who convert might see more of their Social Security benefits taxed, but at least they won't have to take minimum distributions from the Roth and any withdrawals will be tax-free.

A conversion must meet certain conditions and the taxation on the conversion can be complex. Consult with us before making a conversion to determine if it is right for you.

If you are fairly young, expect to be in a similar tax bracket when you retire, or are concerned about cash flow during retirement, a Roth IRA may be an appropriate choice. If you are older and expect to be in a lower tax bracket, you may be a candidate for a deductible IRA. Keep in mind, however, that a number of factors need to be considered when choosing an investment vehicle. We can help you calculate which retirement savings strategies are right for you. For additional information on IRAs, see the charts on pages 28-29. Whichever IRA you choose, start making contributions now, and continue making them each year. Doing so will allow you to take full advantage of the tax benefits.

ROTH IRA INCOME LIMITS*

	Contributions Reduced	Ineligible
Single Filers	$153,000 – $168,000	Over $168,000
Joint Filers	$242,000 – $252,000	Over $252,000

*Modified Adjusted Gross Income

NOTE: If you withdraw any of the amount rolled over or converted into a Roth IRA within five years of the rollover, you may be charged a 10% early withdrawal tax.

EMPLOYER-SPONSORED PLANS SECURE 2.0

In December 2023, the SECURE 2.0 Act ("SECURE 2.0") was passed, a package of retirement provisions providing comprehensive updates and changes to the SECURE Act of 2019. The legislation includes some key changes that affect employer-sponsored defined contribution plans, such as profit-sharing plans, 401(k) plans, 403(b) plans and stock bonus plans. While some of the changes were effective immediately upon the law's enactment, most required changes were not effective before the plan year beginning on or after January 1, 2024, so employer sponsors had time to prepare for compliance. See other important guidelines on page 27.

Plan sponsors are allowed to provide for automatic enrollment and automatic escalation in 401(k) and 403(b) plans. SECURE 2.0 requires new 401(k) and 403(b) plans to automatically enroll participants at a new default rate, and to escalate participants' deferral rate each year, up to a maximum of 15%, with some exceptions for new and small businesses. This provision applies to new plans with initial plan years beginning after January 1, 2025.

TRADITIONAL IRA OR ROTH IRA? WHICH IS BEST FOR YOU?

	TRADITIONAL	ROTH
Eligibility Requirements	Any age with compensation,subject to income limits	Any age with compensation, subject to income limits
Tax Benefit	Tax-deferred growth	Tax-free growth
Tax Treatment of Withdrawals	Earnings and deductible contributions are taxed when withdrawn	Tax-free withdrawals (five-year requirement and other conditions must be met)
Contributions	Tax deductible (deductibility depends on retirement plan participation status and income limits)	Not deductible
Maximum Annual Contribution (2026)	$7,500 or 100% of compensation, whichever is less, per person per tax year (aggregate to both a traditional or Roth IRA, plus an additional $1,100 for those age 50 and older)	Same
10% Early Withdrawal Penalty	Yes, if under age 59½ and withdrawal is not for higher education expenses, qualified first home purchase, certain major medical expenses, or certain long-term unemployment expenses	Same
Mandatory Distributions	Distributions must start at age 73	No requirement

EMPLOYER-SPONSORED PLANS CONTINUED

The Act currently requires 401(k) plans to permit participation in the deferral part of the plan only by an employee who worked at least 500 hours (but less than 1000 hours) per year for three consecutive years. SECURE 2.0 changes this participation requirement by long-term part-time employees working more than 500, but less than 1000, hours per year to two consecutive years instead of three. This two-year provision took effect until January 1, 2025. Employers should track hours for part-time employees. For vesting purposes, pre-2021 service is disregarded, just as service is disregarded for eligibility purposes. This provision is applicable to 401(k) plans and 403(b) plans that are subject to ERISA and does not apply to collectively bargained plans. This applies to plan years beginning January 1, 2025. SECURE 2.0 provides for an exception from the 10% early withdrawal tax on emergency expenses, defined as certain



unforeseeable or immediate financial needs, on a limited basis (up to $1,000 once per year). Plans may allow an optional three-year payback period, and participants are restricted from taking another emergency withdrawal within three years of any unpaid amount on a previous withdrawal. This provision was effective for plan years beginning on or after January 1, 2024.

401(K) PLANS

401(k) plans are qualified plans offered by many employers. As an employee, you can contribute a certain percentage of your salary, as defined by the plan, or up to the contribution dollar limit, whichever is less.

The limit for elective salary deferrals in 2026 is $24,500. Those age 50 and older can contribute an additional $8,000. You do not pay taxes on contributions until you receive money from the plan, which is usually when you retire and may be paying taxes at a lower rate.

Some employers match a portion of employee contributions and may also make additional contributions on behalf of the employees. Self-employed taxpayers may make deductible matching contributions to their plans. Employer contributions may be distributed according to the plan's vesting schedule. So, if you leave a job before being fully vested, you may not receive all of the employer's contribution. You will, however, always be 100% vested in the funds you have contributed and their earnings.

ROTH 401(K)S

A Roth option may be available to those participating in traditional 401(k) plans. Like the Roth IRA, contributions to a Roth 401(k) are made with after-tax dollars, and earnings and distributions are tax free, provided you have owned the account for five tax years and are at least 59½ when you make withdrawals. However, unlike the Roth IRA, Roth 401(k)s have no income restrictions, and they are subject to the more generous elective salary deferral limits that apply to conventional 401(k)s—$24,500 for taxpayers under the age of 50 and $32,500 for older workers in 2026 (includes $8,000 in catchup contributions).

You may choose to designate all or part of your elective 401(k) contributions as Roth contributions. However, matching contributions made by an employer must be invested in a traditional account, not a Roth. Participants in 401(k), 403(b), and 457(b) plans are permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

SIMPLIFIED EMPLOYEE PENSION PLANS (SEPS) AND SIMPLE PROGRAMS

SEPs let employers make deductible contributions to the IRAs of employees and avoid much paperwork. All eligible employees must be covered but there's no waiting period for vesting. SEPs are easily converted to Roths.

Savings Incentive Match Plans for Employees (SIMPLEs) are available for any small business, typically those with 100 or fewer employees. Generally, your plan should include any employee who received at least $5,000 in compensation from you during any two preceding calendar years and is expected to receive at least $5,000 in compensation in the current calendar year.

SIMPLE programs can be designed as either an IRA plan or as a simplified 401(k) plan. These plans have contribution requirements and are not subject to nondiscrimination rules. The employer must match the contribution dollar for dollar, up to 3% of the employee's compensation, or make an overall 2% contribution to every eligible participant. All contributions to a SIMPLE account are immediately fully vested.

SOCIAL SECURITY BENEFITS

In retirement, up to 85% of your Social Security benefits may be taxed, depending on your income level. You may be affected if your modified adjusted gross income (AGI plus half of Social Security benefits plus tax-exempt income) exceeds specific limits.

The age at which individuals may start collecting full Social Security benefits is increasing. Full retirement age will increase gradually for those born after 1937 from age 65 to age 67. Early retirement at age 62 is still an option, but your monthly benefit will be reduced.

Taking benefits at age 62 may be tempting, even with the reduced benefit. However, if you choose to continue working to supplement your Social Security income, your benefits may be reduced further if you earn more than the maximum amount allowed. If you are under the full retirement age, receive Social Security benefits, and earn additional income in 2026, your benefits will be reduced by $1 for each $2 earned over $25,000. If you reach full retirement age in 2026, your benefits will be reduced by $1 for every $3 earned over $62,160 in months leading up to full retirement age. Upon reaching full retirement age, Social Security benefits are not reduced because of earnings.

IRA REQUIRED MINIMUM DISTRIBUTION TABLE

Based on the SECURE Act (Setting Every Community up for Retirement Enhancement) and SECURE ACT 2.0 changes, you must take out your first RMD (Required Minimum Distribution) by April 1 of the year after you turn 73. For all subsequent years, you must take the money out of your accounts by December 31.

Generally, your marital status is determined as of January 1 of each year. If your spouse is the beneficiary of your IRA on January 1, he or she remains a beneficiary only for purposes of calculating the required minimum distribution for that IRA even if you get divorced or your spouse dies during the year.

You must increase your IRA balance by any outstanding rollover and recharacterized Roth IRA conversions that were not in any traditional IRA on December 31 of the previous year.

Here is the IRS RMD table to 120 years old.

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
73	26.5	97	7.8
74	25.5	98	7.3
75	24.6	99	6.8
76	23.7	100	6.4
77	22.9	101	6.0
78	22.0	102	5.6
79	21.1	103	5.2
80	20.2	104	4.9
81	19.4	105	4.6
82	18.5	106	4.3
83	17.7	107	4.1
84	16.8	108	3.9
85	16.0	109	3.7
86	15.2	110	3.5
87	14.4	111	3.4
88	13.7	112	3.3
89	12.9	113	3.1
90	12.2	114	3.0
91	11.5	115	2.9
92	10.8	116	2.8
93	10.1	117	2.7
94	9.5	118	2.5
95	8.9	119	2.3
96	8.4	120	2.0

USE THIS WORKSHEET TO CALCULATE YOUR RMD

You can easily figure out how much you need to take out based on the RMD table. Here's how to do the calculation:

1. Determine the balance of your IRA account(s).
2. Find your age on the table and note the distribution period number.
3. Divide the total balance(s) of your account by the distribution period.

This is your RMD.

EXAMPLE

You are 77 years old and the balance of your IRA account is $650,000:

Balance **$650,000**

Distribution period for Age 78 **22.0**

(use chart on adjacent column)

SAMPLE CALCULATION FOR REQUIRED MINIMUM DISTRIBUTION

Balance divided by distribution period

$650,000 divided by 22.0 = $29,545.45

This amount is the RMD you would have to withdraw for that year.

RETIREE #1 CALCULATE YOUR RMD HERE

Your IRA Balance **$**_____

Distribution period for your Age **÷**_____

(use chart on left)

RMD
Balance divided by distribution period **$**_____

RETIREE #2 CALCULATE YOUR RMD HERE

Your IRA Balance **$**_____

Distribution period for your Age **÷**_____

(use chart on left)

RMD
Balance divided by distribution period **$**_____

OTHER RETIREMENT CONSIDERATIONS

If you're deciding where to live in retirement, you may want to look into state taxation and its implications for you. Consider the state income tax rate, state taxation of retirement benefits and Social Security, state and local property taxes, state estate taxes, and state sales tax. These can vary widely from state to state and could have a measurable impact on your finances.

An important consideration when planning your estate is the selection of a competent executor and perhaps a trustee to ensure your wishes are fulfilled. Generally, you have two choices:
1. Use the services of a financial institution's trust department.
2. Name a family member or friend.

Financial institutions offer the benefit of technical know-how and continuity over time and the benefits of these should not be understated. However, since they must adhere to established corporate policies, they charge fees, use conservative investment policies, and could possibly be less responsive to the needs of your beneficiaries.

Selecting a family member or trusted friend as executor could potentially reduce or eliminate fees and add a personal touch to the process, but consider your choice carefully because the responsibilities are significant. Your executor needs to be adept at filing tax returns, making complex tax elections, and implementing investment strategies (but they may have limited knowledge of investments).

Just because a family member is the oldest surviving sibling or is willing to serve does not mean he or she is the best choice. You should also consider choosing a successor executor or trustee. Then, if the designated individual cannot or will not serve, you have an alternative plan.

ESTATE PLANNING

For many people, transferring their wealth to loved ones or a favorite charity is a long-term goal. Appropriate tax planning for your personal situation may help ensure you leave a legacy. Estate planning involves many strategies generally designed to preserve assets, minimize taxes, and distribute property according to your wishes.

If it has been a while since you reviewed your estate plan, consider doing so now, as the landscape of estate and gift planning is evolving. Several changes in the SECURE Act, passed in December 2019, may materially affect estate planning and beneficiary decisions that were previously made in an effort to minimize Required Minimum Distributions (RMDs) to heirs and beneficiaries. It is also important to note that state estate tax laws may differ from Federal estate tax laws, and state estate tax laws may differ from state to state.

Federal regulations regarding the taxation of property owned at death contain a catch-all definition stating that the "gross estate of a decedent who was a citizen or resident of the United States at the time of his death includes the value of all property—whether real or personal, tangible or intangible, and wherever situated—beneficially owned by the decedent at the time of his death." The first step in understanding the potential implications of the Federal estate tax is to know what major assets comprise your estate. Consider the following:

- Personal assets, such as personal property, savings, real estate, retirement plans, and proceeds from your life insurance policies.
- Rights to future income, such as payments under a deferred compensation agreement or partnership income continuation plan. These rights are commonly referred to as "income in respect of a decedent (IRD)" and may be includable at their present cash value.
- Business interests, whether as a proprietor, a partner, or a corporate shareholder.

However, it is important to note that the value of Social Security survivor benefits (received as either a lump sum or a monthly annuity) is not includable in your gross estate.

Determining what may be included in your gross estate may require professional, in-depth analysis. It is also important to re-evaluate your estate plan periodically to help protect your beneficiaries and heirs from having to choose between fulfilling your wishes and meeting estate tax requirements.

Failure to plan your estate not only has the potential to increase your heirs' potential tax liability, but it also leaves responsibility to the state courts to divide your assets, assign guardians for your children, and dictate all other details in handling your estate. Your involvement now can help you prepare for your loved ones' future.



ESTATE TAX LAW CHANGES

The estate planning landscape has been marked by change and uncertainty over the years. Under 2001 tax law, the Federal estate tax became progressively generous in the run-up to 2010, when it was phased out completely for a single year. Under the 2010 Tax Relief Act, the Federal estate tax was reinstated. The Tax Cuts and Jobs Act of 2017 doubled the exemption amounts from 2018 to 2025. In 2026, there is a top tax rate of 40% and a lifetime exemption amount of $15 million per individual (or $30 million for married couples).

Early preparation is key to developing appropriate strategies to minimize potential estate taxes and ultimately maximize the amount transferred to your heirs. Bear in mind that an unlimited amount may be passed tax free to a spouse. If you are married and your combined assets (including life insurance) surpasses $30 million, consider implementing advanced planning tools, such as trusts, to help minimize taxes (an unlimited amount may be passed tax free to a spouse).

ESTATE, GIFT, AND GST TAX EXEMPTIONS		
Estate Tax Rate Exemption	40%	$15 million
Gift Tax Rate Exemption	40%	$15 million
GST Tax Rate Exemption	40%	$15 million

THE PORTABILITY PROVISION

In the years after The American Taxpayer Relief Act of 2012, the estate tax exemption can be transferred between spouses, so if one spouse dies and does not use the full exemption amount, the remainder can be used by the survivor. To make use of the "portability" option, the executor of the first spouse must actively elect it on the estate tax return, even if no liability is owed. Then, when the remaining spouse dies, the heirs will owe estate tax only on any amount above the combined exemption. This means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets.

Note that this does not eliminate the need for planning. Wealthy taxpayers who currently fall within the exemption limits may still want to consider setting up a bypass trust in anticipation of future changes in the rules. In addition, couples with different sets of final beneficiaries, such as children from previous marriages, may wish to set up a bypass trust in order to clarify the beneficiaries of their separate assets. See the chart on page 34 for more information about commonly used trusts.

GIFTS TO FAMILY AND/OR FRIENDS

One way to gradually transfer your estate tax free is to use the annual exclusion and "gift" up to $19,000 per person, per year, to an unlimited number of recipients. If you and your spouse choose to "split" gifts, then $38,000 per year can be given away without you or the recipients paying transfer tax. (Gift-splitting is not necessary in community property states.)

You may also want to take advantage of the lifetime gift tax exemption. In 2026 the top tax rate is 40% and the exemption is $15 million for singles and $30 million for married couples.

If you would like to make a gift to a grandchild (or anyone else) and not be limited by the annual exclusion amount, make a direct payment to the providers for education (tuition only) and medical expenses. Gifts of this nature do not count toward the annual limit. You can also exclude gifts of tuition or medical payments made now for future services.

If you transfer realty to a relative for little or no consideration, make certain you report the gift. The IRS searches property records to uncover unreported gifts.

Gifts may be made directly to the donee or deposited in a trust for the donee's benefit. Many estates can be completely transferred to others in this way over time. There are special requirements when the trust beneficiary does not have a present interest in (does not enjoy current benefits from) the trust property. Gifts to such trusts do not qualify for the $19,000/$38,000 annual exclusions. In the case of trusts set up for minors, annual exclusion gifts are allowed, but beneficiaries must have full access to the trust assets at age 21.

A potential solution to the "present interest" problem is to create a "Crummey" trust for greater flexibility and control. This requires that you give each trust beneficiary a right of withdrawal when funds are transferred to the trust. Transfers subject to Crummey powers will qualify for the annual exclusions.

To enhance your gifting strategy, you may want to consider creating a Family Limited Partnership (FLP), to which you can transfer property (such as rental property) and then gift interests to family members without relinquishing full control.

TAX TIP #14

To enhance your gifting strategy, consider creating a Family Limited Partnership (FLP) to which you can transfer property (e.g., rental property) and then gift interests to family members without relinquishing full control.

2026 GIFTING BENEFITS

1. Post-gift appreciation escapes the estate tax.
2. To the extent of the $19,000/$38,000 per donee, per year annual exclusion, no transfer tax is imposed.
3. Gift tax paid reduces your taxable estate. (Limited exceptions apply.)
4. Post-gift income produced is taxed to lower tax bracket donees.

GENERATION-SKIPPING TRANSFER TAX

Transfers to your grandchildren may be subject to the Generation-Skipping Transfer (GST) tax. The Generation-Skipping Transfer tax is equal to the highest estate and gift tax rate in effect for the year (40% for 2026). The GST tax may be avoided by making gifts that qualify for the annual exclusion directly to your grandchildren. (Note that Crummey power trusts will not work for this purpose.)

TRUSTS

A trust is defined as an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another. One of the valued characteristics of a trust is its ability to bridge the gap between life and death, allowing a person to "rule from the grave," so to speak. Generally, a trust may be established to last for many generations, ending 21 years after the death of the last named beneficiary, or after a specific number of years as permitted by state law.

During your lifetime, you could establish a trust for your own benefit. For instance, you could use a trust to minimize taxes, obtain professional asset management, or accomplish other goals. You may want to participate in a new business venture with strong potential, but high risk. In this case, you could use a trust to help ensure your income in the event of business failure.

On the other hand, trusts can be established for the benefit of others (such as your spouse, parents, children, or grandchildren). Trusts may also be created for the benefit of independent adults for many reasons, including freedom from management burdens, expert administration, mobility, and other practical purposes, like cash savings. While avoiding probate may be a consideration, the estate and gift tax savings associated with the use of trusts may also be important. See the chart on page 34 for other trusts used in estate planning.

LIFE INSURANCE PROCEEDS

If you own a life insurance policy, it is important to understand that life insurance proceeds are subject to estate tax upon your death if you retain any powers over the policy (such as the right to change the beneficiary or borrow against the policy) or if the proceeds are made payable to your estate.

COMMONLY USED TRUSTS

Type	Purpose	Benefits
Credit Shelter or Bypass Trust	Created at death to hold and manage assets for your heirs in an amount equal to the estate tax exemption.	Distributes assets free of estate tax to heirs at a predetermined age.
Irrevocable Living Trust	Created by gifts to manage assets you transfer, for beneficiaries you designate. Terms are specified at your discretion.	Keeps trust assets out of your estate if you give up all control. Post-gift appreciation is also excluded. Can be set up so that you pay the taxes on trust income, maximizing the amount available to beneficiaries.
Revocable Living Trust	Protects and manages your assets in the event of your incapacity. Becomes irrevocable at death and provides for asset distribution.	Helps avoid probate and preserves privacy.
Insurance Trust	Owns life insurance policies on your life, and can be used to manage and distribute policy proceeds in accordance with your wishes.	Keeps insurance proceeds out of your estate. Can loan proceeds to your estate to help meet liquidity needs, such as paying estate tax.
Charitable Remainder Trust	Holds appreciated property you transfer for the benefit of a charity. Makes annuity payments to you (or other beneficiaries) and transfers any remainder to the charity at your death.	Gives you an immediate income tax deduction, avoids capital gains tax, provides you with annuity payments, and keeps the transferred property out of your estate.
QTIP (Qualified Terminable Interest Property) Trust	Created at death for the benefit of your spouse and children. Pays all trust income to your spouse for life. Remainder then passes to your children.	Qualifies for the unlimited estate tax marital deduction. Gives you complete control over the final disposition of your property. Often used in second marriages to protect interest of children from a previous marriage.

You can transfer a policy to certain life insurance trusts at least three years before you die, or you can give money to the trust to buy a new policy and pay the premiums. Under either method, the proceeds will be free from estate tax, although your initial gift and the premiums paid may be subject to gift tax. If the trust is properly structured, the insurance proceeds can still be available to meet the liquidity needs of your estate.

RESIDENCY CONCERNS

The location where you decide to retire can be very important because state income and estate taxes can have a pronounced impact on your overall tax picture.

Moving your domicile (residency) to a state with a more favorable tax climate can save you a lot of money. For example, some states don't tax retirement account distributions, while some states assess estate tax at much higher marginal tax rates than others.

A state can tax you and your assets only if you are domiciled in that state. To determine your residency status, states will consider factors such as the following:

- Where you are registered to vote
- Where your automobiles are registered
- Where you own real estate
- Where you lived for most of the tax year

ADVANCE DIRECTIVES

If you were to experience a debilitating illness or become incapable of managing your own affairs, who would make your important legal, financial, and health care decisions? On what authority would this individual act? Fortunately, advance directives—legal instructions that express your wishes regarding financial and health care decisions in the event that you become incapacitated—can help deal with such contingencies.

A durable power of attorney grants authority to another person to make legal and financial decisions on your behalf in the event of mental incapacity. The powers granted can be broad or limited in scope. A durable power of attorney can assist you with your personal finances, insurance policies, government benefits, estate plans, retirement plans, and business interests.

A living will generally allows you to state your preferences prior to incompetency regarding the giving or withholding of life-sustaining medical treatment. A health care proxy allows you to appoint an agent to make health care decisions on your behalf in the event of incapacity. These medical decisions are not limited to those regarding artificial life-support.

Advance directives by durable power of attorney, living will, or health care proxy are essential estate planning tools for all individuals, regardless of age. Without such documents, court intervention, involving a great deal of time, expense, and stress to your family, may be necessary to carry out your legal, financial, and health care wishes.

Be advised that this information is not intended or written to be used, and cannot be used, for the purposes of avoiding tax-related penalties; or for promoting, marketing, or recommending to another party any tax-related matters addressed herein.

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